CURRENT CONDITIONS IN THE TEXTILE AND APPAREL INDUSTRIES

HEARINGS

BEFORE THE

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

FIRST SESSION

WASHINGTON, DC, APRIL 3, 1985
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CURRENT CONDITIONS IN THE TEXTILE AND APPAREL INDUSTRIES

WEDNESDAY, APRIL 3, 1985

House of Representatives,
Committee on Ways and Means,
Subcommittee on Trade,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:30 a.m., in room 1100, Longworth House Office Building, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

[Press releases announcing the hearings follow:]

[For immediate release, Thursday, March 21, 1985]

The Honorable Sam M. Gibbons (D., Fla.) Chairman, Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, Announces Hearings on Current Conditions in the Textile and Apparel Industries

The Honorable Sam M. Gibbons (D., Fla.), Chairman of the Subcommittee on Trade of the Committee on Ways and Means, U.S. House of Representatives, today announced hearings to examine current conditions in the textile and apparel industries. These hearings will address a broad spectrum of issues relating to international trade in textiles and apparel, such as implementation of the Multi-Fiber Arrangement, trends in import competition, and efforts by domestic manufacturers to remain globally competitive, as well as legislative proposals to regulate trade in textiles and apparel, including H.R. 1562, the Textile and Apparel Trade Enforcement Act of 1985.

The hearings will begin in Washington, D.C., on Wednesday, April 3, 1985, at 11:00 a.m., in the main Committee hearing Room, 1100 Longworth House Office Building. The second day of hearings will be held in Masters Hall at the Unicoi State Conference Center in Helen, Georgia, on Friday, April 5, 1985, from 8:30 a.m. until 12:00 p.m. Additional days of hearings may be announced later.

DETAILS FOR SUBMISSION OF REQUESTS TO BE HEARD

Requests to be heard must be made by telephone to Harriett Lawler [telephone (202) 225-3627] by close of business, Wednesday, March 27, 1985. The request should be followed by a formal written request addressed to Joseph K. Dowley, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, Room 1102 Longworth House Office Building, Washington, D.C. 20515.

In view of the limited time available to hear witnesses, the Subcommittee will not be able to accommodate all requests to be heard. Those persons and organizations not scheduled for an oral appearance will be encouraged to submit written statements for the record of the hearings. All persons requesting to be heard, whether they are scheduled for oral testimony or not, will be notified as soon as possible after the filing deadline.

It is urged that persons and organizations having a common position make every effort to designate one spokesman to represent them in order for the Subcommittee to hear as many points of view as possible. Time for oral presentations will be strictly limited with the understanding that a more detailed statement may be included in the printed record of the hearings. This process will afford more time for Members to question witnesses. In addition, witnesses may be grouped as panelists with strict time limitations for each panelist.

In order to assure the most productive use of the limited amount of time available for questions, witnesses appearing before the Subcommittee at the Washington, D.C., hearing are required to submit 200 copies of their prepared statements to the full Committee office, room 1102 Longworth House Office Building, at least 24 hours in advance of their scheduled appearance. Witnesses appearing before the Subcommittee at the Georgia field hearing are required to submit 100 copies of their prepared statements by Wednesday, April 3, to the Office of Congressman Ed Jenkins, Attn: Sammy Smith, P.O. Box 1015, 301 Green Street, Gainesville, Georgia 30503 [telephone (404) 536-2531].

Requests to be heard must contain the following information:

1. The name, full address, and capacity in which the witness will appear, as well as a telephone number where he or his designated representative may be reached;
2. A list of any clients or persons, or any organization for whom the witness appears; and
3. A topical outline or summary of the comments and recommendations in the full statement.

The above information should also be incorporated in the prepared statements to be presented in person as well as those filed for the printed record of the hearings.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE

Persons submitting a written statement in lieu of a personal appearance should submit at least six (6) copies of their statement, by the close of business Tuesday, April 30, 1985, to Joseph K. Dowley, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, Room 1102 Longworth House Office Building, Washington, D.C. 20515. (see other requirements enumerated above.) If those filing written statements for the record of the printed hearings wish to have their statements distributed to the press and the interested public, they may provide 100 additional copies for this purpose to the Committee office during the course of the public hearings.

[For immediate release Tuesday, July 2, 1985]

THE HONORABLE SAM M. GIBBONS (D., FLORIDA), CHAIRMAN, SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES CONTINUATION OF HEARINGS ON CURRENT CONDITIONS IN THE TEXTILE AND APPAREL INDUSTRIES

The Honorable Sam M. Gibbons (D., Fla.), Chairman of the Subcommittee on Trade of the Committee on Ways and Means, U.S. House of Representatives, today announced the continuation of hearings to examine current conditions in the textile and apparel industries, as previously announced in Subcommittee press release #3, dated March 21, 1985.

The next scheduled hearing will be held on Monday, July 15, 1985, in room B-318 Rayburn House Office Building beginning at 2:30 p.m. Testimony will be received from invited witnesses only, based on requests to be heard which have already been submitted to the Committee.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE

All other interested parties wishing to submit written statements for the record of the printed hearing should submit at least six (6) copies of their statements by the close of business, Tuesday, July 30, 1985, to Joseph K. Dowley, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, Room 1102 Longworth House Office Building, Washington, D.C. 20515. Written statements must contain the following information:

1. The name, full address, and capacity of the person or organization submitting the statement, as well as a telephone number where they may be reached;
2. A list of any clients or persons, or any organization for whom the statement is submitted; and
3. A topical outline or summary of the comments and recommendations in the full statement.

If those filing written statements for the record of printed hearings wish to have their statements distributed to the press and the interested public, they may provide 100 additional copies for this purpose to the Subcommittee office, room 1136 Longworth House Office Building, before the hearing begins.

Chairman GIBBONS. Good morning, ladies and gentlemen.

This hearing brings with it some typical Washington-style weather in which we see snow and sleet and rain and gloom spread around the Capital. I hope what we learn from this hearing will help us to remove the psychological and real gloom and fear that we see in the textile and garment industries.

I appreciate the presence of all of those who have come to be with us. Today the Subcommittee on Trade of the Ways and Means Committee will begin its first hearing on the subject of competitive conditions in the textile and apparel industries. Those of you with a long institutional memory will remember that the last time that we went into this subject matter in any great depth was in the 1970's. I hope we can do it again. The purpose of these hearings is to review the competitive posture of our domestic textile and apparel industries in the world markets, and to examine the current laws and policies regulating international trade in textile products.

As you know, this subcommittee has oversight responsibility with respect to the multifiber arrangement, the fundamental international agreement regulating trade in textiles. We also have jurisdiction over all forms of import controls ranging from tariffs to various import quotas which currently control U.S. imports of textiles and apparel. These hearings will review present laws and policies regulating U.S. imports and consider various options to improve and revise them.

In addition to reviewing the current legal framework, another fundamental purpose of these hearings is to examine the state of the domestic and textile apparel manufacturing industries vis-a-vis our foreign competitors. One out of every 10 manufacturing jobs in the United States is related to the textile and apparel industries. Perhaps no other industry in the United States is as widespread and, at the same time, employs so many Americans in manufacturing as do these two industries. Their importance to our national economy cannot be overlooked and will not be overlooked.

On this Friday, April 5, this subcommittee will go on the road to conduct a field hearing in Congressman Jenkins' district, in Helen, GA, in order to hear from witnesses who are unable to come here to Washington. After being in Congressman Jenkins' district, we will travel to Atlanta, where we'll hear some people talk to us about the retraining problems and the readjustment problems in the textile and garment industries. Then we'll visit several towns in the South to view and visit textile plants and garment factories, and to have discussions with people in the industry on their day-to-day operations and their problems relating to foreign trade.

Hopefully, this trip will enable us to better understand the current conditions in the industry and its problems. After that, it is my proposal that we visit perhaps the textile and garment industry in New York City and in Pennsylvania and in California, because those are the areas of highest concentration. I think that there probably is not any Member of Congress who does not have some part of this industry within his district or her district. We've been requested by many Members to visit their districts and to view the conditions there. We will do as much of that as is possible. I plan a trip into North Carolina sometime early this summer, or perhaps late spring, to view areas of distress in that State and to talk with those people.

I wonder if any of my colleagues have any opening statements they would like to make? Mr. Jenkins, we'd welcome a statement from you.

Mr. **Jenkins**. Thank you, Mr. Chairman. I want to take this opportunity to express my appreciation to you as chairman and to the committee for taking the days that we will be taking to view the textile/apparel industry in various States and the chaotic conditions in some of these districts that this particular industry finds itself.

I know that every industry has a great deal of problems. But I think that where you have a basic industry, such as textiles apparel and affects 49 States from the standpoint of employment, that this is an opportunity for us as a committee to look in an unbiased way at a direction that we may be able to be of some assistance to a very basic industry. I want to thank you for permitting the committee to have the field hearings and to commence hearings. And I would hope that we could come up with some legislation or some direction at the termination of these hearings that would be of help to this very vital industry.

Thank you.

Chairman **Gibbons**. Well, thank you, Mr. Jenkins, and I recognize your responsibility not only as a Representative of the north Georgia area and its principal industry, but also as chairman of the Textile Caucus. And I want to say there that you've done a vigorous, responsible job.

Mr. Pease, I wonder if you have any comments you'd like to make? Or does any other member have a comment?

Mr. **Pease**. No comments.

Mr. **Schulze**. Mr. Chairman, just very briefly——

Chairman **Gibbons**. Yes, Mr. Schulze.

Mr. **Schulze**. I would like to congratulate you for holding this series of hearings because it is recognition of the fact of the importance of the textile industry and the impact that it has throughout not only the United States, but in world trade.

It is a key factor in world trade. It is an area in which most nations of the world are involved to some degree, and it's an area of growing concern. We should try to forestall major problems in world markets, and I think that one of the things we should look at as we go through these hearings is, how do we bring order to what seems to be the verge of chaos?

I congratulate you for these hearings. I hope that they will give us a great deal of information upon which we can bring benefit not only to the domestic industry, but in doing so, to aid the worldwide textile industry.

Chairman **Gibbons**. Thank you.

Mr. Campbell?

Mr. **Campbell**. Thank you, Mr. Chairman, and I want to thank you for holding these hearings and for also coming into the southern part of the United States and for announcing that you're going into other areas to look firsthand at the problems of the textile industry.

As you have noted, the textile and apparel industry is a very large employer, employing some 2 million—1 in 10 of the manufacturing jobs in the country, and there are another 2 million that work in support. And they are active in 48 of the 50 States.

Over the last two decades, the textile industry has spent a great deal of money modernizing and trying to meet competition, including a record $1.7 billion in 1984. And they have become the most modern and most productive industry in the world. In 1984, however, apparel imports captured half the U.S. market in some categories, and captured as high as 80 percent in others. Since 1980, imports of textiles and textile products have grown at an annual rate of about 19 percent, which is much greater than the orderly growth objectives of the MFA and certainly far in excess of the 1 percent average growth in the United States marketplace.

Because of the fact that fiber, textile, and apparel imports are far outpacing the growth of the domestic market, we have some rather intolerable market conditions with disruptions, job losses, and curtailed production. And the textile/apparel trade deficit, obviously, has grown at the same time to a record $16 billion in 1984, and now accounts for 13 percent of the U.S. merchandise trade deficit. The U.S. textile, fiber, and apparel companies are continuing their effort to streamline and to produce cheaper and more effectively, but I'm not sure they can make it on their own, in spite of herculean efforts. And I honestly believe that if we don't have some slowdown in import growth, future investment in the industry is likely to be sharply curtailed, which is going to lead to a loss of competitiveness and it's going to have some continued liquidation of the industry.

We recognize we have a currency problem and an imbalance; however, we know that that's part of the problem and I think today we can look at other parts of the problem.

I want to thank you again for agreeing to hold these hearings and to study this in great detail.

Chairman GIBBONS. Thank you, Mr. Campbell.

Our first set of witnesses represent the U.S. Government in the responsible task of negotiating and administering the trade laws as they relate to textiles. We have a distinguished group with us this morning, and as I introduce them, I want to pay tribute to the role that they play. It's a very tough role and very difficult to carry out this policy.

From the Office of the U.S. Trade Representative, Ambassador Richard Imus. He is the Chief Textile Negotiator.

From the U.S. Department of Commerce, Mr. Walter C. Lenahan. He's the Deputy Assistant Secretary for Textiles and Apparel.

And from the U.S. Customs Service, Mr. John P. Simpson, the Director of the Office of Regulations and Rulings.

Ambassador, I assume we should start with you, and so we'll start with you.

STATEMENT OF AMBASSADOR RICHARD H. IMUS, CHIEF TEXTILE NEGOTIATOR, OFFICE OF THE U.S. TRADE REPRESENTATIVE

Ambassador IMUS. Thank you, Mr. Chairman.

It is a pleasure to be here, and——

Chairman GIBBONS. Ambassador, that microphone, unfortunately you have to kind of crawl into it to get it to work.

Ambassador IMUS. Crawl in it? All right; am I far enough in it?

Chairman GIBBONS. We've been trying to get the committee to buy some good microphones, and they say if we ever get the budget balanced, they're going to buy us some new microphones. We may have to go to megaphones soon, here.

Ambassador IMUS. Fine.

Mr. Chairman, I would appreciate very much, with your permission, if I could summarize my written statement, which is submitted for the record.

Chairman GIBBONS. Yes, sir, without objection. Your statement and all other witnesses' statements will be included in the record in full as if delivered, and will be preceded by your summarization.

Ambassador IMUS. Thank you very much, Mr. Chairman and members of the committee.

Mr. Chairman, we are all here today because we all recognize the importance of our textile and apparel industry and textile and apparel trade. This has been acknowledged for over two decades by successive administrations. This administration devotes more administrative resources to textile trade than any other sector. In USTR alone, for example, there are three Sectorial Divisions. One is for agriculture, one is for industry, and one is for textiles. This importance has also been recognized internationally through the creation and extension of successive multilateral agreements, the latest being the present Multifiber Arrangement, or MFA. The MFA is an agreement under GATT auspices but creates special multilateral rules not accorded to any other sector.

Under the MFA and the 34 bilateral agreements covering our textile and apparel trade, we have undertaken some very specific commitments in exchange for some important benefits.

Whenever we discuss our general policy or specific implementation, we should, I believe, keep in mind both these obligations and these benefits.

What do we then gain from the MFA, one might ask? First, we can institute quotas far faster than under normal procedures of GATT and domestic law which other industries must use. I know our domestic textile industry sometimes expresses frustration with the textile process, but our rights under the MFA and the bilaterals and the resources we devote domestically to implementation clearly enable us to move far faster than the section 201 process with its lengthy ITC investigation, which we have established in accordance with our GATT obligations.

Furthermore, under our bilateral agreements I believe we have been able to manage some potential textile problems at an earlier state.

Second, under the MFA we can seek quotas on a particular supplier or group of suppliers. Without the MFA, the GATT requires quotas to be applied across the board to all trading partners. Such a broad approach has not been supported by our industry. GATT rules authorize retaliation or compensation for safeguard restrictions, but the MFA has no such retaliation or compensation provisions. This is a very important benefit, for it has allowed us to maintain hundreds of quotas for textiles and apparel without any other U.S. industry having to pay a direct price, either in terms of lost export sales or in terms of reduced U.S. barriers to foreign competition.

In short, our domestic manufacturing industry has received great benefits from the MFA. Indeed, they have consistently supported the arrangement and have been a part of each Government's negotiating team in Geneva.

We do not, however, have a carte blanche under the MFA to do what we wish, to impose, simply, our will on our trading partners. Central to the MFA is negotiation; thus, we need to compromise to achieve the mutually agreeable settlements contemplated by the MFA. Also, the MFA has rules. We need to demonstrate disruption or threat, using fairly specific MFA guidelines. Sometimes this is easy. Sometimes, given the complexity of our industry and the market, it is hard. We do not always agree with our industry, and certainly, our foreign trading partners do not often agree with us.

We are, in this regard, concerned that there are some who believe that the multilateral, cooperative approach envisioned by the MFA is undesirable and should be replaced by unilateral action. This feeling has been manifested in the introduction of legislation on March 19, 1985, H.R. 1562, and S. 680, which would replace MFA criteria with our own unilateral rules for import control. A fundamental policy of the MFA is that problems of market disruption in importing countries that are caused by textile/apparel imports should be resolved by agreement with exporting countries on a product-by-product and country-by-country basis. The MFA permits unilateral imposition of quotas only when the importing country can show actual market disruption. This disruption must be based on the existence of serious damage to the domestic producers or actual threat thereof. Unilateral quotas can be imposed only for one year, and must be limited to the precise products from the specific countries causing the disruption to domestic producers of the products. These quotas can be extended only by mutual agreement; in such cases, minimum growth should be 6 percent, unless both parties agree that an exceptional case warrants a lower figure.

We believe, therefore, that the proposed legislation is inconsistent with the MFA and the 34 bilateral agreements we have negotiated under MFA guidelines. Some specific points of concern are that the proposed legislation would entail a massive, unilateral rollback in trade, contrary to our existing agreements; the proposed legislation eliminates the concept of negotiation toward a mutually acceptable solution; it mandates unilateral actions without time limit. There is no justification for this in the MFA.

The proposed legislation eliminates the concept of demonstrating market disruption for specific products from specific countries. This is a key concept of the MFA.

The proposed legislation mandates minimal growth of 1 percent for the bulk of the trade, and 6 percent for the rest. Unilateral imposition of such figures without case-by-case justification has no basis in the MFA.

Whether in the MFA or generally, recognizing rules and making compromises is never easy. We in Government are often as frustrated as industry on particular cases. On the other hand, if we ignore our commitments, if we forget the rules, others will do so as well. A trading system with some rules, some order, is clearly better than the alternative, a unilateral, international free-for-all. The threat of that free-for-all led to the establishment of the MFA and the domestic implementing program nearly 25 years ago. If we are to abandon this approach now, the danger to the whole trading system is even more evident.

The present system has allowed us to do much for our domestic textile and apparel industry—for example, the creation, over the past 2 years, of some 200 new quotas, as I mention in my written testimony. This administration is fully committed to using the international system to the utmost to assist our domestic industry. Acknowledgement of some international rules does not in any way imply abandonment of our own industry and our own workers. Compromise is often necessary, but compromise should not be interpreted as a lack of commitment to a strong domestic industry.

Thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF AMBASSADOR RICHARD H. IMUS, CHIEF TEXTILE NEGOTIATOR, OFFICE OF THE U.S. TRADE REPRESENTATIVE

Mr. Chairman, Members of the Committee, I am pleased to have this opportunity today to present testimony on the textile import program.

As you know, USTR has the lead responsibility within the government for the conduct of international trade negotiations and for matters respecting the GATT, or General Agreement on Tariffs and Trade. As such, USTR is responsible for negotiating multilateral and bilateral textile and apparel trade agreements and for representing the U.S. in meetings of the GATT Textiles Committee and the Textiles Surveillance Body in Geneva. We are, therefore, concerned on a daily basis with U.S. textile policy in the international arena, although primary responsibility in the area of domestic implementation rests with the Committee for the Implementation of Textile Agreements. The chairmanship and the administrative support of CITA is provided by the Department of Commerce.

The basic rights and obligations we have in international textile and apparel trade are set out in the Multifiber Arrangement which, since 1974, has provided the guidelines within which we control imports of low-priced goods disruptive to our domestic market. The MFA is an agreement under the auspices of the General Agreement on Tariffs and Trade (GATT), but creates special rules not accorded to any other sector under the GATT.

I would highlight three fundamental differences between the GATT rules and the MFA. In order to impose quotas under GATT rules, we would have to demonstrate *for each product* that increased imports cause or threaten serious injury. Second, the restrictions for each product would have to be applied on a non-discriminatory basis to all suppliers. And third, we would have to compensate the restricted countries or face retaliation.

By contrast, the MFA allows us to limit imports through negotiation of bilateral agreements at a stage before the problem may have reached the dimension which would justify GATT reaction. Significantly, in cases where agreement cannot be reached, the MFA still allows us to impose limits to prevent market disruption. Moreover, these limits may apply ~~to one or a~~ small number of suppliers rather than to all suppliers as prescribed by the GATT non-discrimination principle. Finally, MFA rules do not require compensation or authorize retaliation for MFA restrictions.

To give a concrete example, we have added over 300 new quota limits during the Reagan Administration under provisions of bilateral agreements and the MFA. This is a far greater number that at any time in the 25-year history of our textile-apparel import control program. I would not want to speculate how many of those restrictions could or would ultimately have been implemented under GATT rules and conventional U.S. domestic safeguard procedures applicable to other industries. However, I can confidently say that, because of the MFA, we were able to act more quickly, and selectively, and without the normal constraint of the need for compensation or risk of retaliation.

In addition to rights, however, our membership in the MFA also imposes on us certain obligations, one of which is that our bilateral agreements with foreign suppliers must be in conformity with the minimum guidelines set out in the Arrangement. Another obligation—a crucial one—requires that calls for consultations with foreign suppliers aimed at setting limits on additional categories be warranted by the existence or threat of market disruption. The factors which the MFA specifies as the cause of such market disruption are a sharp and substantial increase in imports of particular products from particular countries and the offering of these products by the exporting country at prices substantially below those for similar goods of comparable quality produced in the U.S. The MFA further requires that market disruption be documented, that the interests of the exporting country be factored in and that special consideration be given to small suppliers, new entrants to the market and cotton-producing developing countries. I have appended to my written statement the full text of Annex A of the MFA and paragraph 12 of the 1981 protocol of extension setting out these criteria.

The point I hope I have made clear is that under the MFA we have important rights that we would not have were textile trade governed by GATT rules. But while membership in the MFA confers substantial advantages, we are obliged to play by the rules. There is, of course, a trade-off implied here: The interests of domestic producers and the requirements of the MFA do not always coincide. This is the central issue for textile trade policy and for the implementation of the textile import program.

During 1983 and the first half of 1984, the textile and apparel industries shared in the U.S. economic recovery. In this period, personal consumption expenditures on clothing were up, as were apparel sales, shipments, man-hours worked and employment. Textile and apparel markets benefitted from rising consumer purchasing power, inventory building, modernization efforts aimed at increasing productivity, strong demand for home furnishing fabrics and increased auto sales. Unfortunately, the economic recovery in the United States has not been matched elsewhere in the world. This disequilibrium, together with the strong dollar, has drawn in imports at an unusually high rate while frustrating efforts to increase exports, hence the large trade deficit. As a consequence, the domestic textile and apparel industry has faced intense import competition. The 25% increase in imports in 1983 and 32 percent rise in 1984 has been of deep concern to us, as it has been to our domestic manufacturing industry.

Data on imports by country or country group show that our "Big Three" suppliers—Taiwan, Hong Kong and Korea—accounted for less than 15 percent of the total growth in 1984 imports as compared with 38 percent the previous year. China and Japan, our fourth and fifth largest suppliers, accounted for less than 8 and 3 percent of total growth, respectively. While our five largest suppliers still account for over 50 percent of total imports and the "Big Three" for over 50 percent of apparel imports, by far the largest sources of 1984 growth were the OECD countries, excluding Japan, at 32 percent and "other suppliers" combined at 43 percent. The sharp increase in "other," middle level suppliers represents the tendency of the trade to diversify in response to our quota actions.

Without denigrating the problem, we have been somewhat heartened to note, however, that the rate of import growth began to decline in the months of October, November and December. In January to September 1984, for example, imports grew 41 percent, but the rate had slowed to 32 percent by the end of the year. In fact, imports during the fourth quarter increased by only 4.9 percent compared with the last quarter of 1983. We are, therefore, optimistic that an unprecedented number of new quotas imposed during this Administration is now taking increased effect on the trade. Indeed, a majority of our trade in textiles and apparel is covered by quotas. Of our top four suppliers, 75 percent of our MFA trade with Taiwan is under quota; 95 percent of our trade with Hong Kong, 92 percent of trade with Korea and 75 percent of trade with China. We are continuing to establish limits on uncontrolled imports from suppliers of low-cost products where there is a risk of market disruption.

The point underscored by these figures is that our major problems in controlling textile imports do not result from any lack of diligence in implementing our current textile import program under the guidelines established by the MFA. When is 1981 the MFA was extended for an additional five years, we were able to negotiate lower permissibie limits for growth and flexibility. Since then we have concluded new, more restrictive agreements, not only with our top five suppliers, but also with other suppliers as our current bilateral agreements with them expire. We have taken steps to crack down on fraud and circumvention of quota limits and to shield the industry from damaging surges of imports following the release of embargoed goods. We have exercised to the fullest the rights available to us under the MFA to impose additional limits on imports. Some have argued that we have overstepped the boundaries of these rights: Last year an unprecedented number of complaints against the U.S. were referred to Textiles Surveillance Body in Geneva; indeed, in one year we had more complaints about U.S. actions than in the entire prior history of the MFA. In some cases our actions were upheld; in others, we were criticized. In addition, two special sessions of the GATT Textiles Committee were called last year for the sole purpose of questioning U.S. policies concerning tighter enforcement and administration of our textile program. This, too, was unique in MFA history. The international criticism we have faced is a reflection, I believe, of the vigor with which we are administering our import control program.

Why, then, one might ask, are imports increasing despite actions taken by the Administration to restrain their growth? First, we must understand that imports are growing because our economy is growing. In 1982 when our domestic textile industry was in deep recession, import growth was only 3%. Certainly no one would want to return to those bleak days.

In short, recovery has meant growth in both domestic production and imports. In fact, domestic demand has been so strong and the price of foreign articles so attractive that as soon as we hold imports in one area, new pressures develop elsewhere. Because other major importing countries have lagged in recovery and growth, the U.S. has felt these pressures disproportionately.

I would emphasize that international criticism has not deterred us from pursuing actions which we believe are justified to deal with market disruption. In short, I would maintain that we have administered the textile import program as thoroughly and efficiently as our guidelines and resources allow. Our major problems do not result from the program itself but rather from macroeconomic factors which we have either no ability or no authority to control.

In this regard, I would like to close on a note of optimism. There are encouraging signs that recovery and growth are taking hold in other countries, which should reduce pressure on the U.S. market. Improved growth and confidence in other countries, as well as our own efforts and determination to reduce budget deficits, can also go a long way toward easing problems caused by the tremendous strength of the dollar relative to other currencies. Stronger growth and stronger currencies abroad will not only ease pressure on the U.S. from imports, but also can lead to recovery of our once healthy textile exports. I think these trends, along with a healthy U.S. economy, are more important to the health of our textile and apparel industry than our recent tightening of the import program—though I would add that the effect of our actions is also beginning to be evident.

This administration, together with previous ones, has assumed special obligations to our domestic textile and apparel industry. Indeed, the existence of the special MFA regime in the GATT recognizes the sensitivity and importance of this industry.

In today's world, the challenge to our textile/apparel industry is perhaps greater than at any other time. We have worked with our industry to overcome major problems. We are prepared to continue to work together for the future. We recognize that efficient administration of our present import control program is central to that effort and we are committed to the best effort our resources and present international obligations will permit.

Thank you Mr. Chairman.

Chairman GIBBONS. Thank you, Mr. Imus.

Let me say, for the benefit of my fellow Members, we've got a distinguished panel here and I want all of us to tap their resources fully. As we go through the questioning the first time, if Members would try to limit their questions to 5 minutes, with the promise and understanding that everybody can come back after the first round and spend as much time examining these members as desired. And that, of course, includes you, too, Mr. Campbell. Even though you're not formally a member of our subcommittee, we're happy to adopt you for this purpose, and any other members of the full committee that want to sit in.

Our next witness is from the Department of Commerce, Mr. Lenahan.

STATEMENT OF WALTER C. LENAHAN, DEPUTY ASSISTANT SECRETARY FOR TEXTILES AND APPAREL, U.S. DEPARTMENT OF COMMERCE

Mr. LENAHAN. Mr. Chairman, members of the committee, I too have submitted testimony for the record and with your permission, would like to summarize it.

Chairman GIBBONS. Yes, sir, it will be received.

Mr. LENAHAN. And I will make a few other comments that I believe that are pertinent to this discussion.

We all well know the size and the importance of the domestic textile and apparel complex, its players, its affiliates, to the overall U.S. economy. It does, in summary, employ some 1.9 million workers producing a product with a value of approximately $115 billion.

Chairman GIBBONS. Would you repeat those figures again for me, just so I get them?

Mr. LENAHAN. Yes; 1.9 million people producing products with value to the GNP of approximately $115 billion.

Chairman GIBBONS. That's $115 billion?

Mr. LENAHAN. Billion dollars, sir.

It is, in many respects, a mammoth sector of our economy, more than double the size of the steel industry, for example, and certainly well in excess of the size of the American automobile industry.

We have had, since 1981, a substantial increase in imports of textiles and apparel. This first occurred in 1981 with an 18-percent increase in imports. At that time, our domestic industry was in relatively good status, in part because of a buoyant domestic market, but also in part because of an expanding export market. That situation reversed quickly with the recession of 1982, when domestic production fell by some 7 percent and exports fell quite dramatically, in the range of 30 percent. Fortunately, with the economic recovery of 1983, we saw an increase in domestic consumption. This was accompanied by an increase in domestic production. It was, however, accompanied as well by a very substantial increase in imports in the range of 25 percent. And 1984 has seen a continuance, at least in part, of the 1983 trend, with consumption being up in the range of 6 percent, with imports having again increased in a range of 32 percent. Domestic production during the first semester of the year increased, but unfortunately, decreased substantially during the second semester of the year so that overall domestic production for 1983 was of approximately—or 1984, was approximately the same level of 1983.

In my testimony I outline the procedures of the Committee for the Implementation of Textile Agreements, how it goes about its business, how it obtains its data, the decision making mechanism within the committee for determining when quote actions should occur. Since that is in my testimony, I will skip over that and talk about the results.

Ambassador Imus mentioned, in his statement, that we have during the past 3 years established approximately 200 new quotas. These quotas resulted directly from the call actions by CITA when CITA has determined that imports from specific countries in specific categories are either disrupting or threatening to disrupt domestic production in the United States.

The 200 quota figure is significant, because looking at year-end 1981, we had, at that time, approximately 430 quotas in place on a global basis, specific categories from specific countries. The addition of the 200 through quota actions and an additional 20 quotas through negotiations means that we have increased, by approximately 50 percent in a 3-year period, the number of quotas—that is, the amount of additional protection to our domestic industry.

And what has been the effect of those quota actions? We are now in a position where 42 percent of all trade in nonapparel is covered by specific limit quotas, and 79 percent of all apparel trade is under quota control.

I believe it's illuminating to look at a number of countries. Our biggest suppliers are Hong Kong, Korea, and Taiwan. They supply about 37 percent of our total market. They supply about 50 percent of goods subject to quota action. During the last 3 years, we have increased the quota coverage on those three countries to a point where approximately 90 percent of all their 1984 trade in textiles and apparel is covered by quota actions. I believe we are beginning to see the fruits of those quota actions, because analysis of the most recent import data—that is, over the last 4 to 6 months—indicates a substantial decline in the level of trade from those countries and from a few other principal suppliers subject to quota action.

Ambassador Imus mentioned—and I certainly agree—that the administration is not insensitive to the requirements of the domestic industry and the unique program that has been sponsored by the administration since the early 1960's. I believe the actions we have taken during the past 3 years, in addition to the quota actions and the negotiation of bilateral agreements, give substance to the commitments of this President and other Presidents to support our domestic industry.

I would just like to enumerate a few of those actions that have been taking place.

We have, within the Department of Commerce and the other agencies involved in the textile program, over the past 3 years made a substantial investment in personnel training and computer technology so that we can better keep track of events in the textile and apparel industry and so that we can better take action when action is required.

We have worked with Customs to improve import documentation so that we can better determine where discrepancies between our data and foreign government data occur, and thereby find the root of problems when problems do occur.

We have established an automated visa verification system with Taiwan that is quite unique which has helped to reduce substantially the amount of fraudulent trade from Taiwan. We are in the process of expanding that to Korea; in my view, it should be expanded to all substantial shippers to the United States.

We also, in late 1983 and at the instigation of the White House, established additional criteria which the Committee for Implementation of Textile Agreements utilizes to determine when to examine specific trade instances to determine if there is market disruption or the threat thereof.

These and other actions have all been taken by the administration and within the past 3 years, aimed at fulfilling our commitment to the domestic industry. And indeed, in assisting that industry to become a more viable member of our manufacturing economy. Thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF WALTER C. LENAHAN, DEPUTY ASSISTANT SECRETARY FOR TEXTILES AND APPAREL, INTERNATIONAL TRADE ADMINISTRATION, U.S. DEPARTMENT OF COMMERCE

Mr. Chairman, Committee members, I am Walter C. Lenahan, Deputy Assistant Secretary for Textiles and Apparel, U.S. Department of Commerce. I also serve as Chairman of the Committee for the Implementation of Textile Agreements (CITA). I am pleased to testify before you today on the government's textile and apparel import program.

OVERVIEW OF THE TEXTILE AND APPAREL INDUSTRY AND ITS IMPORTANCE TO THE U.S. ECONOMY

The textiles and apparel industry is one of the most complex and heavily regulated manufacturing sectors of the U.S. economy. It comprises:

A farm community that produces 2.8 billion pounds of cotton and 140 million pounds of wool for the domestic textile and apparel industry and for export markets. Farm employment providing resources to the industry was 229,000 in cotton and 126,000 in wool in 1984. Sales to the domestic industry in 1984 of raw cotton and wool totalled $2.8 billion in 1984.

A petrochemical complex producing man-made fiber for the textiles and apparel industry in 78 plants with 71,000 employees and annual shipments of 8.2 billion pounds.

A textiles mill sector, including yarn, fabric, and household and industrial products that in 1984 employed 753,000 workers in 6,000 plants while annually making a $24 billion contribution to GNP.

An apparel sector that in 1984 employs 1,202,000 workers in 22,000 plants while making a $32 billion contribution to the economy.

The textiles and apparel complex is the single largest sector of our manufacturing economy, employing 1,955,000 white and blue collar workers in over 28,000 plants. This is 10 percent of total manufacturing employment in the United States with shipments of $115 billion or 6 percent of total manufacturing output in the United States. This level of output is comparable to that of the automotive industry and two times that of the steel industry.

Given its importance to the U.S. economy, and particularly its importance in several states and large urban areas, the Federal Government has since the late 1950's taken an active role in ensuring the industry's continuing viability by providing a measure of protection from imports of textiles and apparel that have disrupted or could disrupt the market for domestic producers.

TRADE IMPACT

Since 1981, the textiles and apparel industry has had to deal with marco-economic forces that have served to erode its domestic and international markets. Because of the strong dollar, negative or low growth rates in other developed countries, and third world debt which reduced demand in many developing economies, the domestic industry's exports plummeted in 1982, and fell again in 1983 and 1984 when export trade was 36 percent below that of 1981.

These same factors have led to rapid increases in imports of both textiles and apparel. Overall imports increased by 18 percent in 1981. Such an import growth rate was tolerable then because the domestic market was bouyant and exports remained at high levels. However, the situation reversed itself in 1982 when exports declined by 24 percent and domestic production by 6 percent while imports grew by 3 percent. This was the first time that imports of textiles and apparel grew during a domestic recession.

With the improvement in the domestic economy in 1983, domestic consumption of textiles and apparel increased 11 percent. This resulted in 7 percent growth in domestic textile production and 9 percent in growth in apparel production. However, exports continued to decline while overall imports of textiles and apparel grew by 25 percent.

1984 saw a continuation of the import surge at levels 32 percent above those of 1983. Exports continued to decline. Domestic consumption increased by 4 percent during the year while domestic production, which increased by 4 percent during the first semester, declined by an even larger amount during the second semester. For a year, overall production is estimated to have declined by 1 percent.

Fortunately, the rate of growth of imports began to slow down during the fourth quarter of 1984. This trend continued during January and February, with total imports for the two months, approximately 6 percent below the comparable period in 1984. This slow-down also has been a characteristic of domestic production, where orders for January and February are lower than the same period last year, and is probably attributable to retailers' desire to reduce inventories.

Throughout this four-year period, the growth of imports has steadily eroded domestic producers share of the domestic market. We estimate that in 1981 imports accounted for 14.5 percent of domestic consumption of all cotton, wool and man-made fiber finished products of textiles and apparel (25.6 percent for apparel). By 1984, this figure has risen to 21.2 percent (33.0 percent for apparel).

IMPLEMENTATION

The Commerce Department has principal responsibility for implementation of the textile import control program. As the Department's Deputy Assistant Secretary for Textiles and Apparel, I have two major responsibilities—managing the Office of Textiles and Apparel and serving as Chairman of the Committee for the Implementation of Textile Agreements (CITA).

The Department of Commerce's Office of Textiles and Apparel (OTEXA) is responsible for assisting the domestic textile and apparel industry by promoting U.S. exports; identifying and taking action to reduce foreign trade barriers to those exports; analyzing the state of the domestic industry; and providing administrative support to the Committee for the Implementation of Textile Agreements.

OTEXA has a staff of nine full-time professionals and an annual budget of $1.4 million devoted to export promotion. Working closely with the domestic industry, the OTEXA's Market Expansion Division annually puts on 8-10 foreign exhibitions of U.S. textile and apparel, sponsors 4-5 overseas trade missions and conducts 4-5 domestic seminars to encourage American firms to enter the export market. The Market Expansion Division is also responsible for identifying foreign tariff and non-tariff barriers to our exports of textiles and apparel and making recommendations for the removal of such barriers. A senior staff member chairs the Committee on Textile Export Barriers, the interagency group responsible for the identification and, where possible, removal of foreign textile trade restrictions.

Regarding the import restraint program, OTEXA monitors the flow of imports and maintains close contact with the domestic textile and apparel industry to determine the health of particular sectors of that industry. On a specific category basis, it keeps under continuous examination the relationship between imports, domestic production, and domestic consumption to determine if imports threaten to have a disruptive effect the domestic market.

This is a complex task. The Customs Service annually processes over 6 million separate import shipments. About 10 percent, or some 50,000 import shipments each month, are textiles and apparel. There are many different kinds of textile and apparel products that need monitoring. For instance, of the 14,000 separate products listed in the Tariff Schedule of the United States over 3,400 or about 25 percent are textile and apparel products. For purposes of monitoring imports and domestic production, we have created a system of 109 separate textile and apparel categories of cotton, wool, and man-made fiber products and blends thereof. Our restraint actions and our bilateral agreements are based on this 109 category system.

Once OTEXA, based on its analysis of imports and domestic production and consumption trends, determines that a sector of the domestic industry has been disrupted or is threatened with disruption by imports of a particular product from a particular country, it prepares a recommendation for restraint action to be considered by the Committee for the Implementation of Textile Agreeements. OTEXA's recommendation normally includes information on world imports, imports from particular countries that are disrupting the domestic market, and information on domestic production and consumption trends. It also, when available, provides comparative price data and information on the status of domestic inventories, orders and employment.

The information used by OTEXA for its analysis comes from a number of sources. Import data is collected by Census. This information is supplemented with data obtained from the Customs Service concerning import performance under existing quota limits. Information on the domestic market is available from several government sources, including Census and the Bureau of Labor Statistics. Private sources include data prepared by the National Cotton Council, the Textile Economic

Bureau, the trade press, and the 15 trade associations representing various segments of the domestic textile and apparel industry. Additionally, we are in the process of developing a new data base source utilizing information on consumer purchases collected by an eminent market research firm.

Probably our most valuable source of information on both import trends and trends in the domestic industry comes directly from industry sources. We and other CITA agencies are in constant informal contact with representatives of the domestic industry and the import community to obtain their up-to-date views on textile and apparel trade. Additionally, I am Chairman of two formally constituted advisory committees—one for importers and retailers and one for domestic industry and labor—which meet monthly with representatives of the CITA agencies to provide continuing guidance on the textile program.

If, based on its analysis, OTEXA believes that imports of particular categories from particular countries are disrupting or threatening to disrupt our domestic market, OTEXA makes a recommendation to me in my capacity as Chairman of the Committee for the Implementation of Textile Agreements (CITA).

If I believe that OTEXA has made an appropriate recommendation, I submit that recommendation to CITA. CITA, which is comprised of representatives of the State, Treasury and Labor Departments, and the Office of the United States Trade Representative, then makes a final determination as to whether or not there exists disruption or the threat of disruption to the domestic market. CITA normally makes these decisions by vote. If a majority of CITA members believes that disruption has occurred or is imminent, the State Department is instructed to advise the foreign government that we would like to consult with them to negotiate a mutually agreed quota level. At the same time, I normally instruct the Customs Service to begin controlling imports from the particular country on an interim basis pending the negotiation of annual quota levels with the foreign government.

The President is authorized to control imports of textiles and apparel under Section 204 of the Agricultural Act of 1956. That authority has been delegated to CITA by Executive Order 11651 of March 3, 1972, as amended.

SCOPE OF THE IMPORT CONTROL PROGRAM

The program which I have described is not a global control system. Rather, it is a product specific and country specific program aimed at the selective control of those imports considered to be disrupting or threatening to disrupt our domestic market.

The program has become increasingly active as imports have increased. In 1981, we established quotas in 18 separate instances on five supplying countries. In 1982, 38 new quotas were established on 8 supplying countries. With the import surge of 1983 and 1984, we established 220 new quotas on 23 supplying countries, including 5 countries not previously subject to the control program.

We are currently administering approximately 650 separate quotas from 31 supplying countries. With some suppliers we control almost all of their trade. For instance, Taiwan is our largest supplier, now providing about 14 percent of our import trade. We currently control 90 percent of Taiwan's 1984 trade in cotton, wool and man-made fiber textile products with 60 category specific quotas. Korea, our second largest supplier, has 59 specific limit quotas covering 92 percent of its exports to the United States while Hong Kong, our third largest supplier, has 57 specific limit quotas covering approximately 95 percent of its 1984 MFA textile trade with the United States.

On an overall basis, the quota program controlled 42 percent of 1984 import trade in non-apparel and 79 percent of apparel imports. Since the import control program is designed to reduce disruption in specific product areas, close attention is given to those industry sectors that are most heavily import impacted. Cotton trousers are an example. At the current time we import 43 cotton trousers for every 100 produced domestically. Imports as a share of apparent domestic consumption of cotton trousers are 30 percent. Because of this high degree of import sensitivity, we have cotton trouser quotas on 16 suppliers covering 72 percent of total import trade in 1984. Another example is wool sweaters where 2 sweaters are imported for each one produced domestically, i.e., imports are responsible for 68 percent of apparent domestic consumption. We currently maintain quotas on 15 suppliers covering 53 percent of 1984 import trade in wool sweaters.

The government's textile and apparel import program has been subject to a number of improvements in the past few years which demonstrably have improved our ability to better administer our responsibilities. These include:

A substantial investment in computer technology and training to enable us more quickly and more accurately to track the flow of imports.

Revision of import documentation to enable us to more easily identify discrepancies between foreign governments' export data and U.S. import data.

The establishment of an automated visa verification system (AVVS) between ourselves and Taiwan which has reduced substantially the amount of fradulent trade in textiles and apparel from Taiwan. The AVVS program will soon be expanded to include Korea and should, in my view, be expanded to include all countries with whom we have bilateral agreements.

The establishment, in late 1983 at the request of the White House, of additional criteria which CITA must utilize in determining when to examine instances of possible market disruption or the threat thereof.

Other administrative changes within CITA which ensure that it acts more quickly to identify and act on instances of market disruption.

The implementation on January 1, 1985, of a system to control the release of embargoed goods (resulting from overshipment of the prior year's quota) in a manner so as to lessen short-term disruption in the domestic market.

Finally, to improve administration of this extremely complex program, on May 9, 1984, the President issued Executive Order 12475 which called for special Customs regulations in accordance with policy guidance from CITA. These regulations were to include a codified, and if necessary, revised rule of origin for textile products. The interim regulations were published on August 9, 1984, and the final regulations were announced on March 5 to become effective April 4, 1985. E.O. 12475 also authorized the establishment of a Customs Task Force to provide better liaison between the Customs Service and CITA on issues cocnerning the textile and apparel import program. That Task Force is now in operation

However, more can be done. In an effort to improve our information on domestic apparel production, the Administration has submitted a bill to authorize the mandatory reporting to the Census Bureau on a quarterly basis of domestic apparel production. At present, detailed information is collected only on an annual basis and cuttings data are collected monthly. The Administration bill would permit more rapid reporting of the detail needed to identify the relationship between imports and domestic production. Having this quarterly data would also enable us to eliminate the monthly survey. The bill enjoys the support of both the domestic industry and the import and retail community. In the House, the bill has been referred to the Committee on Post Office and Civil Service. I urge that members of this Committee actively support this bill.

CONCLUSION

Administration of the textile and apparel import program has become increasingly complex as imports have increased and our control measures expanded. As noted earlier, the Customs Service must process about 250,000 textile and apparel entries each month. Census must tabulate them and report them to us in a usable form. We must monitor trade in all categories from all countries to ensure that all countries abide by quota arrangements. In this process, we annually prepare over 400 directives to the Customs Service and issue over 4,000 waivers for misclassified shipments. Bilateral negotiations, industry consultations and interagency deliberations take up an increasing amount of time. Despite the increasing burden of the program, we believe that we have in the past and currently are administering a responsible program that provides a measure of assistance to our domestic textile and apparel industry. We will continue to do so.

Chairman GIBBONS. Thank you, Mr. Lenahan.

We'll go next to the U.S. Customs Service, Mr. John P. Simpson.

STATEMENT OF JOHN P. SIMPSON, DIRECTOR, OFFICE OF REGULATIONS AND RULINGS, U.S. CUSTOMS SERVICE

Mr. SIMPSON. Thank you, Mr. Chairman.

As the members of the subcommittee know, the Customs Service tries not to insert itself in formulation of trade policy, which we believe to be properly the role of Congress and other agencies of the executive branch. We see our job as administration of the policies and the laws we're given. We believe we are doing our job effectively, and in the prepared statement, which I've submitted for the record, I've given some examples of our performance. We believe we can continue to do that job effectively with the resources we have.

Thank you.

[The prepared statement follows:]

STATEMENT OF JOHN P. SIMPSON, U.S. CUSTOMS SERVICE

Mr. Chairman and members of the Subcommittee, I am pleased to have the opportunity to be here today to discuss Customs' program to enforce import restraints on textiles and textile products.

Although this system of restraints is complex and difficult to administer, we believe that Customs' efforts provide an effective deterrent to violators, while still allowing legitimate importers to enter their goods without undue difficulty.

As you know, the United States now regulates trade in apparel and textile importations under the umbrella of the Multi-Fiber Arrangement through a system of bilateral agreements negotiated with individual exporting countries. The Customs Service administers these agreements through a system of quotas, visas, and monitoring programs, and, in addition, identifies and administers other admissibility issues, such as whether the merchandise is protected by a registered trademark or tradename.

Customs first responsibility is correctly identifying imported articles in terms of U.S. Tariff Schedule descriptions and determining the proper value, so that the correct quota is charged and the right amount of duty is collected.

We must also determine the country of origin for imported products and verify that the origin and any special labeling requirements are appropriately marked on the merchandise.

The intentional circumvention of these trade controls is the primary target of Customs' textile fraud initiative. Our goal of effective enforcement is accomplished in a variety of ways and combines the knowlegeable use of automation with the efforts of well-trained, highly-skilled professional personnel.

IDENTIFICATION OF ENTRIES FOR EXAMINATION

Obviously, Customs has neither the resources nor need to examine carefully every entry of merchandise. The decision to examine physically certain merchandise, or to examine particular entry documents and invoices, is governed by a system of programs and rules known in the Customs Service as selective examination.

Routine processing of low-risk shipments frees our professional staff to concentrate on enforcement of important trade programs like the control of textile importations. Based on an assessment made by a knowledgeable Customs officer, such as import specialists, inspectors, or special agents, criteria are established which provide instructions about the need for merchandise or document examination on other than a random basis.

Because of the extraordinary volume and variety of merchandise entering the United States; and because the problems in enforcing our trade laws are constantly changing, automation is the key to a workable selectivity program. Customs is currently building a comprehensive and sophisticated system, the Automated Commercial System, or ACS, which, when fully operational, will automate and integrate the full range of Customs commercial processing activities.

Our current cargo selectivity program, ACCEPT, is automated in 31 ports. An additional 31 ports use ACCEPT criteria in a manual mode, and instructions concerning the examination and document review of textile shipments are available at all ports. Our enhanced cargo selectivity system is being tested now and will soon be integrated with other entry processing functions in ACS. Selective document review is operational manually at all ports, and development of an automated selection program is under way.

TREATMENT OF TEXTILES WITHIN THE SELECTIVE EXAMINATION PROGRAM

Owing to the need for precise merchandise identification, for examination of documents to ensure the presence of necessary visas, declarations, etc., for charging the applicable quota before releasing merchandise, and because of the high incidence of fraud, Customs has designated most textile commodities "high risk" for examination and document review purposes. A textile importation actually or even potentially subject to import restraints is not usually released without a fully-documented, duty-paid, formal entry.

Included in the inspector's instructions are directions not to allow release of the shipment without full processing, including import specialist review and quota availability determinations. If the quota is fully, or the visa, declaration, or other documentation is not in order, the merchandise is not allowed entry and must be warehoused or exported. Questionable shipments are detained until we have all the answers we need. Shipments involving attempted entry by fraudulent means are seized.

To improve our examination procedure, Customs has established an automated visa verification system with Taiwan, in which visas are verified via satellite communication by the Taiwanese Government. This system enables us to identify counterfeit visas before merchandise is released. Reconciliations on quota quantity differences are made through the Department of Commerce for Korea, Macau, Indonesia, the People's Republic of China, and Taiwan.

DETECTION AND PROSECUTION OF VIOLATIONS

During President Reagan's administration, law enforcement has been the number one priority of the Customs Service. With respect to ordinary commerce, such as trade in textiles and apparel, effective law enforcement means a successful campaign against commercial fraud.

At the same time we have been mounting an intensive effort to streamline and modernize commercial processing, we have recognized that our commercial fraud effort lacked focus and organization. A little over two years ago, a major enforcement initiative designated as Operation Tripwire was established to escalate fraud detection, investigation, and prosecution. The Textile Fraud Program became a major enforcement target under the Tripwire umbrella.

Even before the Customs Service tightened its textile regulations, our own intelligence gathering indicated that the problem of textile fraud warranted increased attention on the part of enforcement officials. Numerous schemes, many quite extensive, existed to circumvent textile import restrictions.

These schemes were and are becoming increasingly more sophisticated and complex. Customs employees have uncovered counterfeit visas, false export documents, counterfeit trademarks, undervaluation, overvaluation to avoid dumping and countervailing duty assessments, understatement of weights and quantities, and transshipment of quota merchandise from "tight" quota countries to those which have unused quota or which are not subject to quota at all. Just recently, the Customs Service seized 15,000 sweaters improperly marked as a product of Guam when, in fact, no operation, save the marking, was conducted there.

To coordinate and provide direction for the Tripwire effort, in December 1982, Customs established the Customs Fraud Investigations Center at our Headquarters office. The primary mission of the Fraud Center is to provide our field units with the best possible support in their efforts to seek out and prosecute violators.

There are currently four professional personnel assigned to the Textile Section at the Center. There are also three senior special agent desk officers who monitor major textile cases within their regions. Of the 576 cases currently tracked at the Fraud Center, textile and apparel fraud cases account for the largest single area subject to investigation. Twenty-seven per cent of open and pending cases involve these commodities.

As an adjunct to the Customs Fraud Investigations Center, 41 field fraud teams are operating at major ports throughout the country. These teams combine the talents of import specialists, inspectors, special agents, regulatory auditors, attorneys, and laboratory personnel into an effective approach to combat commercial fraud.

The Fraud Center uses numerous communications systems and data bases, special alerts, and intelligence papers to keep field officers up to date with recent activities within the textile industries of various foreign countries and current schemes used to circumvent U.S. trade laws. They identify trends, monitor shifts in market conditions, and track violator histories.

There are currently 289 persons involved in Operation Tripwire. This is in addition to our regular professional staff who, as part of their normal duties, are emphasizing commercial fraud detection. Inspectors are making more thorough examinations; auditors are examining imposters' books and records; textile import specialists are evaluating information on entry documents; and attorneys are providing technical assistance to Customs' field personnel to aid them in interpreting and applying laws and regulations, and to aid them in processing penalties when violations are discovered.

Once we have confirmed that a violation of U.S. trade laws has, in fact, occurred, Customs aggressively pursues prosecution both civilly and criminally. Guidelines for mitigation of penalties have been tightened, and the criteria which constitutes a violator's "prior disclosure" of information in fraud investigations is more clearly defined.

Civil cases are resulting in payment of significant monetary penalties when serious violations are found to have occurred. One of our largest cases during the past year involved the intentional misdescription of children's wearing apparel on textile visas in order to enter the merchandise under quota categories which were more readily available. The importer pled guilty to two counts of criminal fraud, and a civil penalty has been mitigated to $1.8 million.

At the beginning of this fiscal year, positions dedicated to textile enforcement were increased by 64. Soon there will be additional special agents assigned to our offices in Panama City, London, Bankok, Bonn, and Karachi to work textile and apparel fraud cases. Although we had plans to put additional attaches in Tokyo, Hong Kong and Seoul, our embassies in those cities have not yet given their consent.

NEW TEXTILE REGULATIONS

As the Subcommittee members know, on May 9, 1984, the President signed Executive Order 12475 which directed the Secretary of the Treasury to issue regulations governing the entry of textiles and textile products. Interim regulations were published in the Federal Register on August 3, 1984, and implementation guidelines were furnished to Customs field officers.

Over 650 comments were received on the interim regulations. These comments have all be carefully considered, and final regulations were published in the Federal Register on March 5.

These regulations are designed to clarify existing rulings and court decisions, to address omissions in our textile program which had been used to skirt our bilateral agreements, and to further improve our procedures for examining textile and apparel entries.

One of the most important aspects of the regulations is the clarification of the rules of origin for textiles and textile products. Although Customs is required to make origin determinations for many purposes under U.S. law, we have never included in any regulations a description of the principles applied or the facts considered in making origin determinations. Because of this, origin determinations being made pursuant to different laws by different offices within Customs where inconsistent with other Customs rulings and with court cases, and were undermining administration of laws in which origin determinations are crucial.

The new textile regulations clarify the "substantial transformation" principle and define the elements Customs will consider in making country of origin decisions. Included are some descriptions of those manufacturing or processing operations which will usually result in a change in the country of origin, as well as a list of those which would probably not change the origin of the merchandise.

The effect of the published country of origin rules in the case of textiles is uniformly to assign origin and charge quota to the country where the goods last underwent a substantial processing operation which affected their essential commercial identity and use. This has affected some practices which had grown up to circumvent the U.S. textile program. As an example, a substantial trade had sprung up in which completed sweater parts were being manufactured in one country, such as China, and then shipped to many other countries which had excess quota or which were not subject to quota at all for quick and relatively simple assembly into completed sweaters.

The new origin regulations take cognizance of the fact that the essential identity of the sweaters is established in the country where the parts are knit, and that the assembly of those parts is a relatively simple processing operation, and consequently the finished sweater will be charged against the quota of the country in which the sweater parts were knit.

The regulations require a declaration, which provides Customs sufficient information concerning manufacturing or processing operations to make a country of origin determination. Completed by the manufacturer or exporter, the information required in the declaration is more detailed if such operations took place in more than one country.

Other new provisions are designed to prevent abuses in quota and visa control programs not related to origin. As you may know, the maximum value for informal entry procedures was raised in the Trade and Tariff act of 1984 from $250 to $1250. By regulation, the new limit has been set at to $1,000. Textile articles, however, were excluded from the increase.

Textile shipments valued under $250 per importation may be entered informally and are generally exempt from quota and visa requirements. However, we have discovered importers splitting large shipments into lots that will qualify for this informal entry procedure. The new regulations require a single entry for all shipments on the same carrier on the same day and consigned to the same importer.

The regulations also prevent manipulation of textile articles in a Customs bonded warehouse or a Foreign Trade Zone to avoid quotas which are filled. There have been incidences where importers have withdrawn jackets and pants separately, because the quota for men's suits was full. Of course, the two articles are "reunited" as soon as Customs releases them.

Finally, the integrity of in-bond shipments of textiles and textile products is a matter of considerable concern. These shipments are initially imported at one port, say Seattle, and travel by bonded carrier to a second port for formal entry. Prior to the interim regulations, rarely was any but the most routine processing conducted at the initial port.

The new regulations confirm the district director's authority to perform whatever examination, sampling, and document review he deems necessary at the first port. The results can then be evaluated and compared at the destination port. This emphasis on first port examination has proved to be a valuable tool in textile import enforcement. A number of diversions into the commerce have been attempted with merchandise entered under transportation and exportation bonds. First port of entry examinations have also disclosed unmanifested cargo and false descriptions on invoices.

My remarks here are intended to give the Subcommittee a clear picture of Customs' role in administration of the textile agreements and how we fulfill that role. We are convinced that this well planned, properly managed approach produces maximum benefits and provides for the best use of our resources.

Customs textile enforcement program will continue to be a priority commercial enforcement initiative. We have established an on-going program to evaluate the effectiveness of our efforts and adjust to the changing nature of the international textile market.

This concludes my formal testimony. I will be happy to answer any questions you may have.

Chairman GIBBONS. Thank you.

Mr. Imus, I must admit that my recollection is hazy with regard to how we joined the multifiber arrangement. How did the multifiber arrangement come about, is my first question?

Ambassador IMUS. I believe that the multifiber arrangement grew out of two predecessor arrangements, a short-term cotton arrangement and a long-term arrangement, that were developed, as I said in my prepared statement, nearly 25 years ago. They were developed because it was felt at the time that world textile trade had unique qualities which made it difficult to be handled under the normal GATT procedures. These agreements have periodically come up for renewal and have been successively renewed, and the present multifiber arrangement is the end product of that evolution.

Chairman GIBBONS. How did—is the multifiber arrangement a part of GATT, or is it an offspring of GATT, or is it a subsidiary of GATT? Where does it fit into the whole framework of international agreement?

Ambassador IMUS. The multifiber arrangement is an integral part of GATT. It is a part of GATT where special rules, as I mentioned in my statement, are accorded this industry. The multifiber arrangement is administered by the Textiles Committee which is a part of GATT and, indeed, the Textiles Committee is chaired by the Secretary General of GATT. But what the MFA says is that in the case of textiles, as I mentioned in my statement, there will be certain rights and certain obligations which do not necessarily apply in the other areas of GATT. So it's a special division, I would say, of GATT.

Chairman GIBBONS. Well, my next question is, what happens in case there is no MFA? MFA is something that must be renewed next year, is that right? And it is a mutually agreed to arrangement, or else what happens?

Ambassador IMUS. Yes, you are correct, the MFA must be renewed in July of 1986. If the MFA were not renewed, then our administration and our trading partners' administration of textile trade would come under the normal procedures of the GATT, which would mean that if we wish to institute quantitative restraints, we would do so in the same manner that we do for other commodities in other sectors where imports have become a problem.

Chairman GIBBONS. In other words, if MFA no longer exists, then we would have to pay compensation to trading partners for any variations in our trading rules as far as textiles imports are concerned? Is that the penalty we would have to bear?

Ambassador IMUS. Yes, Mr. Chairman. As I mentioned in my statement, under the normal rules of GATT if you apply a quantitative restraint, you must do so universally and you must either negotiate compensation or face retaliation. This has happened to us in other commodities, and I would assume that these rules would apply to textiles and apparel if we lost the special benefit that we have with the MFA.

Chairman GIBBONS. Now, you have some 600 or so bilateral agreements that are, in effect, treaties—or I shouldn't say you've got that many agreements; you've got that many products under quota—with how many countries? Thirty-four?

Ambassador IMUS. Thirty-four.

Chairman GIBBONS. Thirty-four countries. What happens—in case of the expiration or the non-renewal of MFA, what happens to those agreements? Are they conditioned upon the MFA?

Ambassador IMUS. The agreements have various expiration dates, and they would continue until the date of expiration. They are negotiated under guidelines as provided in the MFA. We do, however, have our domestic authority conditional upon our implementing the MFA and implementing an agreement.

Chairman GIBBONS. Can you describe to me how textile policy is made within our U. S. Government? How do we go about establishing a textile policy and arriving at maximum limitations? Either you or Mr. Lenahan, or both of you answering together would be helpful on this.

Ambassador IMUS. Mr. Chairman, if I might suggest, I'll make a comment in terms of development of general policy, and my colleague may wish to address the question of how that policy is implemented, because that is basically the way our functions are divided, if that's acceptable.

Chairman GIBBONS. All right.

Ambassador IMUS. Policy is the primary responsibility of the U.S. Trade Representative, and is developed by him in concert with his Cabinet colleagues. In most cases that I have been aware of, the basic policy decisions have been made at that level in either the Trade Policy Committee or in a similar group, called the Textile

Trade Policy Group, both of which are chaired by the U.S. Trade Representative.

A great deal of our basic textile policy is formulated when the MFA comes up for renewal, and in that process we have also worked very closely with the Congress.

I should finally mention that in the policy and the negotiation process we have a very close coordination with the private sectors. There are several formal advisory groups and then, as a negotiator, I have well over 100 industry advisers who are authorized and cleared to be a party to the details of the negotiations.

Chairman GIBBONS. Does the President get involved in this? I'm anxious to find out who really makes the decisions in this area and how the decisions come about. Let's get down to the nitty-gritty. Who decides how many pairs of socks we're going to import, and and things of that sort?

Ambassador IMUS. First of all, the President is indeed—an has been—very much involved in the wide range of textile policy, and I think there is a record of his personal involvement in this issue. In response to your direct question as to who decides how many socks should be negotiated from a particular country at a particular time, that is the responsibility of—the primary responsibility of the Chief Textile Negotiator, myself, weighing the questions of market disruption, weighing the negotiating dynamics in that process. I have a negotiating team composed of the agencies who are responsible for the implementation and administration of our textile program, and it is, I would say, a collegiate effort with that interagency team I head.

Chairman GIBBONS. I'm going to come back to this in the second go-round of questioning.

Mr. Lenahan, do you want to comment now, and then I'll yield to Mr. Jenkins?

Mr. LENAHAN. Yes, Mr. Chairman.

I would underscore the point on the White House involvement. In my 3 years in the program, the White House has kept itself closely informed on all of our activities in the textile and apparel program, both as regards policy and as regards implementation and has, in my view, provided a considerable amount of guidance on how we operate our program.

You mentioned who decides how many socks come in and at what time. The Committee for Implementation of Textile Agreements, which I chair, has the responsibility to monitor imports and to monitor the domestic industry, and to make a determination when those imports are disrupting or are threatening to disrupt domestic production. If, in any particular category—socks, as an example—from any particular country, the chairman believes, based on analysis presented by his staff that disruption has occurred or that there is a risk of disruption, then he will submit a recommendation for action to the committee, the committee being comprised of Commerce, State, USTR, Labor, and Treasury. And the Committee will then decide whether it is appropriate to take action to control those specific imports from a specific source. If their decision is that control is necessary to avoid disruption or to forestall further disruption, then the State Department advises the country that we would like to consult with a view to reaching mutual agreement on a quota. That is where Ambassador Imus, as he described, steps in and conducts the negotiations.

Chairman GIBBONS. Thank you. I have a lot more questions, but we'll go to Mr. Jenkins now.

Mr. JENKINS. Thank you, Mr. Chairman.

Mr. Ambassador, I want to followup on this line of questioning. You indicated in your testimony that the 1983 increase in imports amounted to 25 percent; the increase in 1984 amounted to 32 percent. Do you think that those figures disrupt or threaten to disrupt the domestic industry?

Ambassador IMUS. Yes, Mr. Congressman. I think that there was a true problem there, and it is for that reason that we pursued a policy of having 200-odd quotas and, indeed, in that period, instituted more quantitative restraints, I think, probably than we had at any time previously in the past quarter century.

Mr. JENKINS. What do you anticipate the 1984 increase will be?

Ambassador IMUS. Perhaps I might ask my colleague, Mr. Lenahan, to supplement what I have seen because he has responsibility for that, and analysts.

I'm not sure, Mr. Chairman, because as Mr. Lenahan mentioned, we have seen for the last 5 months a decline in the rate of import growth. And I think 5 months is enough to cause one to take a look at the figures. I wouldn't want to predict absolutely, but I am interested to note that in the fourth quarter of 1984, the increase was down to—if you take the world—to 4.9 percent. And if we take out the European Community and Canada, which as a matter of policy we do not control, the increase was almost flat, 0.8 percent. In January and February of this year, the world increase is down 4.7 percent, and if you take out the European Community and Canada—that is, concentrate on the countries where we can control, where our quotas would have an effect—you have a decrease of 8.8 percent. And indeed, according to the data that I have, really in January and February, only the European Community and Canada are still showing, on a year-to-year basis, positive growth. China is off 28 percent; the Big Three suppliers are off almost 15 percent.

Mr. JENKINS. Do you anticipate, based upon that, that you're going to have an increase or decrease of those percentages?

Ambassador IMUS. Mr. Lenahan's staff has done some projections, and perhaps he can share these with us.

Mr. LENAHAN. That's a tough question, Mr. Congressman. As Ambassador Imus has indicated, we saw a slowing down, considerable slowing down, of imports during the fourth quarter of 1984, particularly from those countries that historically have been high-level shippers to the United States and who increased rapidly during the 1982–84 period.

For the first 2 months, we have noted a decline in overall imports, but particularly a decline from major controlled suppliers. We believe that is, in large part, attributable to our earlier control actions.

For the year, analysts estimate that there will be a slow first half and that there is likely to be some pickup in the second half. Anyone's guess on total import growth is as valid as mine. My estimate would be 15 to 20 percent, based on my staff analysis.

Mr. **Jenkins**. How much is the growth of consumption in the U.S. in apparel and textiles?

Mr. **Lenahan**. Growth in consumption historically has been slightly less than 1 percent—historically, I mean the period 1972 through 1984.

Mr. **Jenkins**. So while the rate of consumption on the average grows at the rate of less than 1 percent, you are still predicting, on top of a 25-percent increase and a 32-percent increase, that we will have in excess of 15 percent increase in 1984?

Mr. **Lenahan**. That is possible, sir.

Mr. **Jenkins**. It doesn't take long for the entire domestic industry to be totally captured at that rate of growth, isn't that correct, if that continues?

Mr. **Lenahan**. That's feasible, were those trends to continue.

Mr. **Jenkins**. I know my time is up according to my light there, but I have a lot of other questions.

When you talk about 200 additional calls, isn't it true that as the exports from the Big Three or the Big Five have not increased, you have a multitude of other nations that have tremendous increases of exports in the last 3 years into this country?

Mr. **Lenahan**. Yes, sir, that's correct.

Mr. **Jenkins**. A large part of the problem is with countries that you do not have bilateral agreements with whatsoever, nor do you have calls made. Is that correct?

Mr. **Lenahan**. No. As our supply base has been diversified, that is, more countries have come into our market, we have been quick to take action to control those supplies. I would cite Indonesia as an example. Before 1982, we did not have a bilateral agreement with Indonesia. We had no specific category controls on Indonesia. At this time, we have a substantial number of categories under control from Indonesia, capturing a substantial amount of their trade. There are other examples, as well.

Mr. **Jenkins**. Is it true that once you place a category under a restraint, do the foreign sources then normally shift production into one that is not covered by an agreement? Do you find substantial increases in those categories?

Mr. **Lenahan**. That's been an historic pattern in textile trade, that once you control one category there is diversification into other categories.

Mr. **Jenkins**. The point I'm attempting to make is that with all of the things that you say you are doing, either something is wrong with the negotiations, or something is wrong with the laws that you are travelling under. What is the problem if you do all of the negotiation that you're talking about? Are you negotiating too high? Obviously something's happening. Why are we seeing an industry devastated with all of the protection that you say that we have?

Ambassador **Imus**. I think, Congressman, and indeed this was alluded to earlier, in the last 2 years we have dealt with an unusual situation which the system, that I talked about earlier, was not designed to deal with. That situation entails a U.S. domestic economy which has been the only real dynamic market for all of the world's exporters, which has put tremendous pressure on this market and has created the phenomena that Deputy Assistant Secretary Lenahan mentioned, of us having to move against continually new suppliers.

And second, we have had a currency relationship that has made a range of products attractive to import when they were not attractive before. When I entered the textile program, for example, we had very moderate imports of fabric and yarns. The currency situation, I think, changed that markedly. In terms of negotiations, I don't think we have been overly liberal. I think if you look at our results, growth rates are much lower; they're certainly never greater, and in many cases they are much lower than what we have traditionally negotiated.

Mr. **Jenkins**. Mr. Ambassador, that's what I want to ask you, because I don't understand this. You negotiate very tough bilateral agreements with the various countries, containing the rate of growth to a very small percentage point. And in spite of that, as you testified, you've got a 25-percent increase in 1982, 32 percent in 1983, and we're going to have, without any question, in excess of 15 percent and probably greater than that this year.

How does that occur if you have negotiated such tough agreements?

Ambassador **Imus**. Because, Congressman, you have the development of the trade, as I believe you mentioned earlier, into areas where we do not yet have agreements. We therefore move into those areas. But in the areas where we have traditionally had control, where we have existing quotas, growth there has been less. It is new categories and new suppliers.

Mr. **Jenkins**. Are you moving quickly enough into these other countries? If that's the problem that we have, if that is where the 25 percent and the 32 percent is coming from, what are we doing? How can we get a quantitative restraint into these other countries to satisfy what the Congress and the President indicate what they want?

Ambassador **Imus**. I believe that we are moving as quickly as we possibly can, using the criteria that we are obliged to use under the multifiber arrangement.

Mr. **Jenkins**. Are you suggesting some changes in the multifiber arrangement to give you tools to move more quickly?

Ambassador **Imus**. Congressman, I am simply stating that I believe that we are moving as fast as we possibly can, given the criteria that we have in the multifiber arrangement and our bilaterals.

Mr. **Jenkins**. My difficulty is simply this: The industry indicates that it is on its way out if something isn't done. Then the administration witnesses come in and say, "We're doing a wonderful job. We're negotiating tough bilateral agreements. The textile industry has more protection than any other industry in this country," and at the same time I see these plants closing left and right all over the Nation. Something isn't working. I just can't believe that there isn't something that can be done to try to have a more orderly marketplace. Is there nothing more that you all can do?

Mr. **Lenahan**. Mr. Congressman, if I could comment on part of the issue you have raised.

I think all of us responsible for this program were shocked at the level of import growth in 1984, and it was approximately 2.4 billion square yard equivalents.

The quota actions that we took in 1984, some 107 of them resulting in about 100 separate quotas, served to contain about a third of that trade, or 800 million square yards.

Additionally, what about what we didn't contain? Approximately 800 million yards came from Western Europe and Canada, traditionally high-cost producers who we do not, under normal circumstances, take actions against because they are high-cost producers to our market.

About another third was in categories with import to production ratios of less than 10 percent. When you're dealing in categories with import penetration levels of less than 10 percent, it becomes increasingly difficult to make a case that the domestic industry is disrupted——

Mr. **Jenkins**. If you have five or six countries at 10 percent each, that mounts up after a little while, doesn't it?

Mr. **Lenahan**. No, sir, I'm talking about total imports into our market representing less than 10 percent of domestic production from all sources.

Mr. **Jenkins**. I'm sorry; I didn't hear that. Could you state that again?

Mr. **Lenahan**. I'm saying that about a third of our imports in 1984 were in categories—and we have a 109 category system, each category having any number of specific parts——

Chairman **Gibbons**. A hundred and how many?

Mr. **Lenahan**. They have 109 different categories.

About a third of our trade in 1984 was in categories with import penetration levels of less than 10 percent. When we get down that low in import penetration level, it becomes increasingly difficult to make a credible case for disruption of our domestic producers, or the risk of disruption of our domestic producers.

Mr. **Jenkins**. Mr. Chairman, you've been very generous and I know other Members are waiting.

Chairman **Gibbons**. Well, I just don't want to transgress on others' time. We'll come back, though.

Mr. Crane?

Mr. **Crane**. Thank you, Mr. Chairman, and I thank you gentlemen for your testimony. I have just a few questions, and part of it goes back to some of the debate we had on the resolution dealing with Japan yesterday that cleared the House. One of the ingredients of that dealt with our insistence that the Japanese try and observe the principle of comparative advantage, that, as one of my colleagues explained to me, you let those countries do that which they do best and try and eliminate the obstructions and barriers to free trade.

I was looking over our Ways and Means Committee document that was a background piece on these hearings and it seems to me that in terms of the weighted average tariff rates that will be effective January 1, 1987, you compare, for example, fibers—the percentage of tariff on fibers for the United States versus Japan versus the European Economic Community, and it's mind boggling the percentage increase on the part of the United States versus Japan or EEC. It's 3.4 percent here, 0.5 or one-half of 1 percent in Japan, 0.6 percent in the European Economic Community. For all textile products, 18.2 percent here in the United States versus 5.4

percent in Japan and 8.5 percent in the European Economic Community. And then for all industrial products, 4.3 percent—except petroleum—4.3 percent in the United States, 2.7 percent in Japan, 4.6 percent in the European Economic Community.

There were some other revelations in that document that I'd like to have you comment on, namely, that the estimated cost of these quotas on imported textiles into the United States may be costing the American consumer as much as $4 billion annually. Does that conform to the figures you folks have?

Ambassador IMUS. We have, ourselves—the folks in USTR—not done specific studies on this question. The Federal Trade Commission has, and I believe—I don't have the document in front of me—their investigations have indicated substantial costs, indeed, to the consumer. But we in USTR have not explored that ourselves, so I could comment only insofar to say that I have seen the studies that you have mentioned, done by another branch of the Federal Government.

Mr. CRANE. But you would concur, all of you, that we have the highest import duties of any of the major industrial nations of the world, with the possible exception of Canada?

Ambassador IMUS. We do have relatively high import duties on textiles and apparel, yes.

Mr. CRANE. Our practice here does not conform to our ideal that we seek with Japan of observance of the law of comparative advantage?

Ambassador IMUS. As I said earlier in my testimony, I think when we look at textile and apparel trade, we have to look at it as a rather unique phenomena in trade, and I think that has been recognized by the international system through the creation of the MFA. So I'm somewhat reluctant to make that comparison.

Mr. CRANE. Well, the reason I raise this point is that one are of concern to me, who has a predisposition to free trade—when you get down to some basics, such as steel, auto industry, the airplane industry, those are basics that in time of a national emergency, frankly, I think that I would resort to protect to guarantee that we can still make tanks and airplanes and so forth. Do you think that textiles fall into that same category of fundamental necessity in terms of the overall security of the country?

Ambassador IMUS. I think that textile clothing is obviously a fundamental necessity of a human being. I think we all accept that. I have not, however, seen a study regarding the extent to which a domestic textile industry is necessary for national security.

Mr. CRANE. That's what I was going to ask, if anyone has seen what is the minimal requirement for the industry to guarantee, within that security context, our needs as a nation.

Mr. LENAHAN. Mr. Congressman, the Defense Production Agency, as I understand it, routinely does a number of studies in very discrete sectors of the textile and apparel industry to determine what minimum Defense requirements are. We don't have that information with us today; we could certainly make that available. It is my understanding from the casual reading I've done in this area that the Defense Department does, in fact, place a quite high priority on the maintenance of a substantial textile and apparel industry for national defense purposes. [See letter at p. 65.].

Mr. CAMPBELL. Would the gentleman yield 1 minute?

Mr. CRANE. Certainly.

Mr. CAMPBELL. Might I ask the question beyond just clothing? Is it not true that the Defense Department considers such things as fabric for tents, such canvas fabrics that might be utilized, and other textile products that would be used in national defense? Is that not true?

Mr. LENAHAN. Oh, absolutely, and I mentioned both textiles and apparel. Parachuting comes to mind immediately, as does tenting and webbing and a whole range of——

Mr. CAMPBELL. Say that one more time?

Mr. LENAHAN. The webbing, the webbing.

Mr. CAMPBELL. Yes, which is absolutely vital. And of course, Defense does consider textiles to be a key industry, a basic industry, and one that is essential to our national defense. I believe I'm correct in that statement.

Mr. LENAHAN. Yes, you are, sir, and I'm sure we could obtain from DPA their studies.

Mr. CAMPBELL. I thank the gentleman for yielding.

Mr. CRANE. My time has expired. Thank you, Mr. Chairman.

Chairman GIBBONS. Thank you.

Mr. Pease, do you have any questions?

Mr. PEASE. Thank you, Mr. Chairman. I have just a couple of questions.

On the renewal of MFA next year, what is the procedure? Is that a ratification procedure? Will the Senate have to ratify that? Will the Congress have to act? What happens if some nations approve it and some nations don't, that sort of thing?

Ambassador IMUS. The multifiber arrangement expires, as I said, in June 1986. The multifiber arrangement requires that a meeting be held 1 year prior to the expiration in order for the participants to determine whether the instrument should be renewed, should be modified, or should be allowed to expire. The first meeting will therefore be on July 23 of this year in Geneva; it will be a meeting of the textiles committee. When the multifiber arrangement is negotiated, should there be a decision to have another multifiber arrangement, the agreement itself is in the form of an Executive agreement. However, traditionally—and I would anticipate this would be the case in the future—the Executive has worked very closely with the Congress prior to that negotiation, as well as very closely with interested private sector individuals in the United States.

Did I fully answer all of your questions?

Mr. PEASE. Yes, I believe so.

Well, how many nations currently are signatories to the multifiber arrangement?

Ambassador IMUS. It's 42 plus the EC, so it's a very broad trade agreement.

Mr. PEASE. And presumably it can go into force among those nations that do agree to the revision of the MFA? It does not require all 42 nations to approve it before it goes into effect, is that correct?

Ambassador IMUS. Technically, yes, that is correct. We ourselves, in approaching MFA, have a special requirement in that our domestic enabling legislation requires that we have an MFA or a suitable instrument covering it. I believe the language is, "the bulk of the international trade." So when we're looking at an MFA, it has to be an MFA or some type of an agreement that has fairly broad application.

Mr. **Pease**. Mr. Imus, I was very interested in your testimony in which you say that the MFA gives us certain rights that we wouldn't have under the GATT, but it also imposes obligations on us. You go through a series of obligations, among which are those permitting new entrance into the textiles or apparel industry to get a foothold and we have to take into account small suppliers, new entrants, that sort of thing.

It seems to me there is a significant opportunity for leakage. As we tighten up with our controls and import quotas on Taiwan, Hong Kong, Korea, and so on, the people who are the multinational corporations that are making these textiles will keep moving on from country to country and using those countries that don't have quotas, or on which we can't fully impose quotas because of these obligations; and that there will always, therefore, be 10 percent, 15 percent, whatever it is, 20 percent growth in imports year after year.

As Mr. Jenkins points out, if you start compounding at the rate of 10 percent, or even 15 or 20 percent a year, that adds up in a hurry. Is that correct? Are we doomed to a constant erosion at the rate of 10 to 20 percent a year?

Ambassador **Imus**. Let me answer the question with two comments. One, you are correct; as one puts a quota on in one country, the trade goes elsewhere. That diversion, if we can use that word, can be either to a new entrant and small supplier, as you mentioned, or it can be to countries where we do not have controls. And I believe this is also one of the reasons why we have seen an increase in trade from the European Community and Canada.

The multifiber arrangement is, as you correctly perceive, a document which regulates growth in imports. It does exactly that, regulates growth in imports—it does not freeze imports, it does not roll back imports.

Mr. **Pease**. Mr. Chairman, I have additional questions but I'll be happy to yield at this time.

Chairman **Gibbons**. Thank you, Mr. Pease.

Mr. Schulze.

Mr. **Schulze**. Thank you, Mr. Chairman.

Do we have statistics on the growth of the world textile market over the last 5 or 10 years?

Mr. **Lenahan**. Yes, sir, we do have them; unfortunately, we do not have them available with us this morning.

Mr. **Schulze**. If you could supply those to the committee.

[See letter at p. 65.]

Mr. **Schulze**. It would be interesting to me to see whether the supply is outstripping the demand and whether there's a steady growth to the increase, whether there are bulges, and also where it's going. For instance, have imports into the EC increased at the same ratio as imports into the United States?

Mr. **Lenahan**. If I can generalize, and subject to correction, world growth and consumption of textiles and apparel, according to recent GATT studies as I recall them, are approximately 3 percent per annum. It is generally acknowledged that supply on a global basis exceeds demand substantially and may be growing exponentially.

As to where the surplus is moving, because of the unique macroeconomic circumstances of the past few years trade certainly is moving much faster to the United States than to other principal markets, such as the EC and Japan. And in fact, for a time in its real slough of despond in 1981 and 1982, there was negative growth of imports in the EC——

Mr. SCHULZE. There was a negative growth of imports of textiles into the EC?

Mr. LENAHAN. That's right; that is, imports were declining, to put it in real English.

Mr. SCHULZE. OK. And yet Mr. Crane just pointed out that their tariff barriers are lower than ours. Then to what do we attribute that negative growth?

Mr. LENAHAN. Low demand is a principal factor. They renegotiated their bilateral agreements or a large portion of their bilateral agreements in 1982. The provisions of those agreements, at least at the outset, may or may not have had some impact on——

Mr. SCHULZE. OK. So it was due more to bilateral agreements than some kind of, perhaps, nontariff barriers?

Mr. LENAHAN. No, I would say it was more to the low-economic demand as a consequence of their recession than to any other single thing.

Mr. SCHULZE. Are there nontariff barriers?

Mr. LENAHAN. I don't know, quite frankly.

Mr. SCHULZE. Mr. Imus, did you——

Ambassador IMUS. I just might add some figures that were provided to me from Geneva. In 1983, the first year that we have full data on the Community—it's much harder to get data because of their fragmented structure—their production was up 3.4 percent; imports were up 4.8 percent; and their exports were up 16 percent. And what interested me was the relationship of the imports to the exports, which is a mirror image of what is happening here, which I personally believe must be a reflection of currency relationships.

Mr. SCHULZE. Now, we negotiated MFA. The growth rate was supposed to be about 6 percent, is that right?

Ambassador IMUS. No.

Mr. SCHULZE. What was the growth rate of import penetration?

Ambassador IMUS. There is no maximum growth rate in the MFA. What the MFA says, as I mentioned in my testimony, is that if you imposed a unilateral quota—you can't reach agreement—you can do so for 1 year, and in those cases the minimum growth rate is 6 percent.

Mr. SCHULZE. Well then, what really do we gain from MFA other than some sort of a negotiating body? I mean, we can send a few people over to Geneva and have tea and cookies and discuss this thing? When it really comes down to it, what are we gaining out of MFA?

Ambassador IMUS. Having spent my Christmas Eve in a snowstorm in Geneva trying to get home, I would be just as pleased not to go to Geneva to negotiate MFA personally.

Mr. SCHULZE. Well, I'm fast coming to that conclusion, that we should pull out of those negotiations.

Ambassador IMUS. What we get out of the MFA specifically is, as I mentioned in my testimony, the ability to apply quotas. I'm comparing the MFA against the normal GATT procedures which include the ability to apply quotas selectively. That is what we're doing now.

Mr. SCHULZE. But being the largest market in the world, we could do that unilaterally.

Let's just take textiles. What retaliation would there be? What we hear is this "retaliation." What are they going to do, say, "Oh, we're not going to send you any more"?

Ambassador IMUS. The retaliation would not necessarily come in textiles. It could come in the broad range of commodities, both manufactured and agricultural, that we export.

Mr. SCHULZE. Well, I think the threat of retaliation is overblown and I think that we have to live up to the letter of our agreements and have other people live up to the letter. And we've got to develop a system, maybe, of more rapid response. I think we need a higher degree of reciprocity so that when—if our markets are flooded with some kind of a product, we've got to have the same kind of access in another area to their markets.

I see my time has expired. Thank you, Mr. Chairman.

Chairman GIBBONS. We'll come back to you. I realize this is a complicated subject and the members have a lot of questions they want to ask.

Mr. Frenzel, and then Mr. Campbell.

Mr. FRENZEL. Thank you, Mr. Chairman, and I'd like to thank each of the witnesses and their Departments for helping us on these hearings.

I'd like to ask Mr. Lenahan about what's happening in textile and apparel imports. I understand that in the last couple of months there has been a real decline in imports, and over perhaps the last 5 or 6, a declining increase which may be indicative of a trend, or perhaps it's just leveling off after the surges, which I suspect were caused by all of the calls.

Do you want to comment on that, Mr. Lenahan?

Mr. LENAHAN. Yes, Congressman Frenzel. We have seen a decline in the rate of growth of imports that started about 6 months ago. It certainly has continued through the first 2 months of this year, the last months for which statistics are available. The decline is noteworthy in that the decline is most rapid from those major suppliers whom we took the majority of the quota actions against, particularly in 1983 but also in 1984.

For the first 2 months of 1984, imports are down by approximately 6 percent. There are a number of factors at large here. Certainly, I think it's generally agreed in all sectors of this industry, including retailers, that the inventory buildup in 1983 and the first half of 1984 were overly large, particularly when consumption did not increase in 1984 at the expected rate. So there has been an inventory work-off. This has affected imports, as I've noted. It also has affected domestic production and domestic shipments, which also slowed down during the fourth quarter, and certainly during the first 2 months of 1985.

Mr. **Frenzel**. What's your estimate, then, of increases across the board for 1985?

Mr. **Lenahan**. Of imports, sir?

Mr. **Frenzel**. Yes.

Mr. **Lenahan**. Well, I earlier, with some trepidation, mentioned the possibility of 15 to 20 percent overall increase in imports. This is based on my staff analysis which, again, is based on trend lines over the last 10 years. It's as good or as bad as any trend line one can come up with.

Mr. **Frenzel**. Give me that again?

Mr. **Lenahan**. Fifteen to twenty percent.

I think there's a general concession that the first semester's going to be relatively rough, both for the import community and for the domestic industry, but that there is a hope for recovery in the second half that will help both importers and the domestic industry.

Mr. **Frenzel**. OK. In your written testimony, Mr. Imus, you talked about the growth in imports and indicated that the highest rate of growth was not coming from the big three but rather from the industrialized countries, notably the EC. Is that trend being continued into 1985, whichever one of you——

Ambassador **Imus**. Yes. I believe in the last few months that the rate of growth in the EC may have moderated a bit, but certainly the trend is continuing.

Mr. **Frenzel**. Thank you.

Mr. Chairman, I notice that I have a yellow light, and I have a dozen more questions.

Chairman **Gibbons**. Well, we'll be happy to come back to you—or go ahead and continue.

Mr. **Frenzel**. In our committee document, which our staff provided for us, there is a note that the FTC conducted some kind of research into the cost of some of the various protections which have been initiated, and came out with a figure of around $35,000 a job. Another figure of $81,000 was indicated. Where that came from, I have no idea. That's fairly expensive in an industry which claims to have an average cost of employment of $5.37 an hour, or roughly $10,000 a year. Anybody want to comment on that?

Mr. **Lenahan**. If I can——

Mr. **Frenzel**. It seems to me we would have been a lot better advised to accept Mr. Pease's ideas of yesterday and extend unemployment compensation forever rather than to pay three times the annual wage for various forms of protectionism to support employment.

Mr. **Lenahan**. Yes. I'm familiar, Mr. Congressman, with the FTC study. One has to assume that there is a cost to a program which does provide this measure of protection. I don't think that we are at all precise yet in our methods of measuring that cost. My staff has analyzed the FTC study and without questioning the results of that it does question the validity of the procedures that they utilized in that study. Is the $35,000 or the $81,000 figure an accurate appraisement? We just cannot tell at this time until we get together with the FTC and they answer the many questions we have concerning the procedure under which they undertook the study.

Mr. Frenzel. We'll later have a witness, I believe, whose organization has indicated that the sum total of textile barriers—additional costs to American consumers—were several years ago over $18 billion. Do you concede that figure or have any feelings about it?

Mr. Lenahan. I don't concede it, and I have no feelings about it. I'd like to see the study; more importantly, I'd like to see the assumptions that went into the study.

Mr. Frenzel. Thank you, Mr. Chairman——

Mr. Crane. Would you yield for just one quick question?

Mr. Frenzel. I'll yield to the gentleman from Illinois.

Mr. Crane. One of the things that has enabled our industry to remain at all competitive, as I understand it, is the incredibly higher productivity of Americans in the textile industry than the textile section in the big three or China. And in fact, the labor component in Chinese textiles, I understand, is 70 percent higher, for example, than it is here in the United States. The explanation behind this is that our increased productivity here rests upon having invested in modernization, in new equipment, and I'm just wondering what your collective opinions are of the various tax reform proposals that are under consideration today which would repeal the investment tax credit and the accelerated cost recovery. These would be vitally important, it seems to me, to an industry where there is a heavy reliance on increasing productivity of workers. And what about the different treatment that's being proposed for capital gains, taxing those as regular income rather than giving venture capital some preferential treatment in the Tax Code? Would the elimination or the alteration of these things have a positive or a profoundly negative impact on the domestic textile industry?

Mr. Lenahan. We have conducted no study on the impact of the proposed tax revisions on the domestic textile and apparel industry. We have, at the request of my Secretary, polled the domestic industry. It is their view that the proposed changes in ACRS and other changes relating to capital investment would be inimical to new investments and therefore would decrease new investment. That would have an impact on their productivity.

Mr. Crane. And the bottom line is that we'd have to go, one, to higher quotas if we're going to protect the industry, and second, it's going to greatly increase the cost of textiles and apparel to American consumers.

Mr. Lenahan. Well, those are some of the alternatives.

Mr. Crane. Thank you.

Mr. Campbell. I just want to tag on the end of that last question and see if you agree with the comment.

Certainly we concede that the textile industry in this country has modernized, as Mr. Crane pointed out, and has become the most productive in the world. Would you also concede that we impose upon our industry standards that other nations do not impose, that come into the cost of doing business—such as EPA, OSHA, things of that nature—and that therefore the Government itself has taken some action that raised the cost of production in America?

Mr. LENAHAN. As is true with all manufacturing, the body of regulations that govern manufacturing of textiles and apparel in the United States make it more costly than in most foreign countries. Not all, but most foreign countries.

Mr. CAMPBELL. Most other countries. Now, since we talk about fair trade, free trade, this sort of thing, the Government has imposed certain things on our industry here. Therefore you don't really have open trade because the Government has intervened and put a cost on industry here. Other countries tend to subsidize——

Mr. LENAHAN. If I might comment on that, Mr. Congressman, it's very hard to put a number to the quota price captured in Hong Kong. We don't know all of the details of that trade. It does have some appearance of the terminal market that is not, like copper, say, representative of total trade in the commodity.

Many, many contracts are done without quota prices affixed to them, and those are normally the longer term contracts. In Hong Kong, the longer term contracts represent——

Mr. CAMPBELL. Well, we don't want to lose ourselves in theory. I don't want us to lose ourselves in the theory of free trade. We've already established that we don't have it. We're working on fair trade to see what we can work out.

I don't want us to lose ourselves in monetary problems. I don't want us to lose ourselves in the difference in the currencies, which we have talked about, even though we will concede that it is a problem, when we have such a strong dollar. But, Mr. Lenahan, you answered in questions submitted before the Subcommittee on Commerce, Consumer, and Monetary Affairs of the Committee on Government Operations, the following, and I would ask you if this is not a concession on your part that we have problems that need to be dealt with by the Government. You said:

> Unfortunately, unfair foreign trade practices too often have played a role in our textile and apparel import trade. The 26 anti-dumping and countervailing duty actions that have been undertaken by the domestic industry during the past 5 years have put foreign firms and governments on notice that they must act more responsibly in the international field.

You also went on to say:

> We believe that transshipment of goods subject to quota and other forms of quota fraud have a substantial impact on our domestic market. CITA agencies and the Customs Service have tightened the administration of programs to try to deal with this.

You went on to say that:

> While much has been done by CITA agencies and the Customs Service to improve enforcement of bilateral agreements, much more needs to be done.

Finally, you went on to say that:

> We have not yet obtained from the State Department or foreign governments approval for three of the assignments of the Customs Fraud Specialists overseas.

You comment that:

> Due to a shortage of funds, the automated Visa Verification System has not been expanded to all major suppliers.

Are these all true statements that I'm making? Is that the position that you would take, and have I misrepresented you in any way?

Mr. **Lenahan**. That is the position I would take. You have not misrepresented me. There may have been some movement on the assignment of those three Customs officers. I have not caught up on that issue there.

Mr. **Campbell**. OK, I'm glad to hear that. But there is, of course, in here—not implied, but explicit—a statement that one of the problems that we have is transshipment, fraud, subsidy, and things of that nature. Is that right?

Mr. **Lenahan**. Well, I will say that it's certainly transshipment and fraud. Whether there remain issues of subsidies where there has not been redress, I just don't know at this time, Mr. Congressman.

Mr. **Campbell**. All right. Let me ask you this. We know we have problems; we've recognized them. We said earlier that we have small countries; we've looked at the fact that Hong Kong, Taiwan, Korea, China, and those have had a reduction. We've seen a tremendous increase from the European Community, and we look at the small nations.

Down in my part of the country we've got an insect called a fire ant. If one of them stings you, you know it; too many of them sting you, they kill you. Are we in that situation now? Are we being attacked from around the world by the Lilliputian nations as fire ants? Are they stinging this country to death with transshipments, with fraud, or with natural growth all together? Is that what we're going to have to look at, now that we have slowed down growth from the Big Four through the administration's efforts and others? Are we going to have to expand and look at this to deal with the problem?

Mr. **Lenahan**. We have seen, certainly in my 3 years in this program, a substantial diversification among supplying countries. When I came into the program almost 3 years ago, I believe we then had agreements with 21 countries and had taken action against 2 other countries. At the current time, I believe we have agreements with 31 countries and have taken action against other countries. It seems to me inevitable that as we tighten control on major suppliers, there will be diversification to other suppliers.

Mr. **Campbell**. Mr. Chairman, I know my time is up. May I follow up that one question?

Chairman **Gibbons**. Sure.

Mr. **Campbell**. When you say there would be a shift to other suppliers, do you have any reason to believe that part of that shift is in collusion with major suppliers who have hit ceilings and who, in fact, are engaged in transshipment? Have you had cases where Customs—they may want to answer this—has intercepted or, in fact, gotten product that has been labeled, mislabeled, or shipped out of a major supplier through one of the smaller countries that is showing growth?

Mr. **Lenahan**. Well, sir, one man's collusion may be another man's investment, so that's a bit hard to answer. I do know——

Mr. **Campbell**. Have you found any of the major suppliers under quota investing in the other countries?

Mr. **Lenahan**. Oh, absolutely.

Mr. **Campbell**. Absolutely?

Mr. LENAHAN. Absolutely. And there were, I must say, before the recent Customs regulation changes, including the codification of the rule of origin, some collusive activities. It's my understanding that that collusive activity has been reduced very, very substantially, and where major suppliers are involved now it takes a more traditional form of more direct investment.

Mr. CAMPBELL. Thank you.

My time is up. I have other questions, and I'll wait to ask them.

Chairman GIBBONS. All right. Let's just turn off the lights now and we'll just go back and forth around here. As members want to be recognized, if you'll just signal to me, I'll try to recognize you.

Has there been any study made by our Government on the implications of MFA renewal, since this agreement is soon up for renewal? The GATT Textiles Committee is going to have a meeting in June, and renewal negotiations will develop over the next year. What would happen to the U.S. textile and apparel industry if there were no multifiber arrangement? Do we know?

Ambassador IMUS. No, Congressman; we have not had a specific study done of that in quantitative terms. As I mentioned before, one answer to that question would depend on what type of action the U.S. Government would want to take under other, more general areas of the GATT and, indeed, what actions the domestic industry would avail themselves of under present trade legislation, such as section 201 of the Trade Act.

Chairman GIBBONS. We've just assumed, then, that the multifiber arrangement will be renewed in some form. Am I correct?

Ambassador IMUS. No; we have not made that assumption. We have solicited through a Federal Register notice opinion of interested parties in the public sector in order to determine what our position should be. But the U.S. Government has not made a formal decision.

Chairman GIBBONS. When do we expect a formal decision by the U.S. Government?

Ambassador IMUS. Part of this will depend on how fast comment comes in, but if I recall correctly, the Federal Register notice specifies that the comments should be done by the end of this month so that the decision as to whether we proceed with negotiations in the multifiber arrangement should be made, I would say, in May or June of this year.

Chairman GIBBONS. Why do we exempt the European Community and Canada from all of this, and what role do they play in our textile and fiber industry?

Ambassador IMUS. As we have said earlier, they are major trading partners with us and, indeed, they have contributed substantially to the increases we are talking about. Our industry has been on record as saying they believe they can compete, however, successfully against these imports and do not require quantitative restraints.

Chairman GIBBONS. Is that still the position of the industry, as far as you know, that they can compete with Canada and the European Community without restriction?

Ambassador IMUS. I have received no formal requests from any segment of the industry asking for quantitative restraints.

Chairman GIBBONS. You were making a statement earlier about mirror image, and I hope you recall it because I can't remember in exactly what context it was, but I wanted to follow through with it. What was that that you were saying about mirror image?

Ambassador IMUS. I believe, if I can recall correctly, that I was mentioning that as our imports in textiles and apparel have gone up, so have our exports gone down; but that in the European Community, European imports have gone up but their exports have gone up much greater, which I said was—certainly in the area of exports—a mirror image. Our exports have gone down; the Community's have gone up.

Mr. CAMPBELL. Mr. Chairman, would you yield one moment?

Chairman GIBBONS. Yes, certainly.

Mr. CAMPBELL. Related but not exactly the same, let me ask you, isn't it true that the European Community actually uses a different method of keeping up with things than we do? For instance, don't they use import licensing as a statistical measure that they control, where we don't?

Mr. LENAHAN. Yes, they do.

Mr. CAMPBELL. And import licensing is a valuable tool to the European Community that gives them the data that is necessary to deal with overall problems, and it's a tool we don't have; is that correct?

Mr. LENAHAN. I would call it less a measure of control than a monitoring mechanism. That monitoring mechanism gives them very little time between the issuance of the export license and the European import license to do anything with that additional information. It's less than a 2-week period.

Ambassador IMUS. The Community has pointed out to us that, in their view, import licensing for them was a necessity because of the fragmentation of country-by-country import statistics, and it was necessary because of their unique arrangement between the member states and the Community as a whole.

Mr. CAMPBELL. But they operate as a Community in their general agreements regardless of whether they're separate countries or not?

Ambassador IMUS. Yes.

Mr. CAMPBELL. And we treat them as such, as the European Community?

Ambassador IMUS. That is correct.

Mr. CAMPBELL. So they use import licensing and we don't, correct?

Ambassador IMUS. Right.

Mr. CAMPBELL. Thank you, Mr. Chairman.

Chairman GIBBONS. I still want to follow up on the original set of questions I was asking, getting into about how policy is made, who makes policy, and who participates in the policymaking, about how many pairs of socks are introduced into the United States. How do we go about deciding that? Who decides that? How is it decided? What kind of participation is there from industry? What kind of participation is there from the public? That's the area I'm interested in right now.

Ambassador IMUS. In terms of public sector participation on general programs, on individual categories of negotiation, the participation is broad and intense. As I mentioned before, every time a category is negotiated, we have a team of industry advisers with us who are cleared to be part and parcel of the dynamics of the negotiating team. They do not actually sit in the room, but they work very closely with us, both here and abroad. And we rely very, very heavily on their advice as to what is appropriate, what their priorities are, what their concerns are.

Chairman GIBBONS. What you're saying is that the sock industry sits in with you when you make a decision on socks?

Ambassador IMUS. That is correct.

Chairman GIBBONS. Now, is there anybody in there who is buying socks that sits in?

Ambassador IMUS. There has not been, in the individual negotiations, as intense a participation by importers and retailers, people who would be purchasing the imported socks, as there have with the industry. But we also have cleared advisers from the importing and retailing sector, as well.

Chairman GIBBONS. But their failure to participate is negligence on their part, or passivity on their part, or what? Are they excluded, or what?

Ambassador IMUS. They are not excluded—no.

Chairman GIBBONS. They are not excluded. How much do they really participate? Very little?

Ambassador IMUS. They have participated actively in two areas, in larger advisory committees. There is an industry advisory committee under the Trade Act, an ISAC, which they have participated in. The chairman of the Committee for the Implementation of Textile Agreements has two advisory committees; one of them is for the importing and retailing sector. They have participated actively there. As I said before, their participation in individual negotiations has not been nearly at the level of the domestic manufacturing industry.

Chairman GIBBONS. Now, Mr. Simpson, your folks collect the information when the cargoes come across the docks, is that correct? And you transmit the information to whom?

Mr. SIMPSON. To the Commerce Department.

Chairman GIBBONS. To the Commerce Department. How much time is it between the time you collect the information and Commerce receives it, do you know?

Mr. SIMPSON. I think less than 30 days; probably as little as 2 weeks. Generally as little as 2 weeks.

Chairman GIBBONS. Of course, there could be a whole big shipment of socks sitting right off the shore. Would you be able to report anything like that to Commerce?

Mr. SIMPSON. No, sir, we could not. Not until it's entered.

Chairman GIBBONS. There is no attempt being made to see what is about to come in from other countries, is that right? Mr. Lenahan?

Mr. LENAHAN. Mr. Chairman, hopefully I can clarify the situation a bit.

Chairman GIBBONS. All right.

Mr. LENAHAN. We receive from Customs the import data, filtered through Census and computers and all that, but in a form that we can use so that we can analyze imports of socks and so that we can compare them against domestic production.

All of this is done internally. If the Commerce Department, based on that analysis, feels that action is appropriate, control action, then it refers it to CITA. CITA then, based on its knowledge of the industry, the advice from staff, its knowledge about the countries involved, makes a determination as to whether or not to request a consultation. That's basically an internal Government decisionmaking process. Once that process is completed and the decision is made, the country is notified that we would like to consult. At the same time, a Federal Register notice is published telling the public of the action that we are taking and advising those who have a view, relative to the negotiation that USTR will then manage, to provide their views to the U.S. Government. And that's where that interreaction with the public starts.

Ambassador Imus mentioned the two advisory committees. They are very important. There is a Management-Labor Textile Advisory Committee made up of domestic industry representatives and representatives of the domestic unions. They advise me, as well as others involved in this process, on a continuing basis of where they see sensitivities arising in import trade.

Chairman GIBBONS. Do you actually have committee meetings or is this just "call me at the office" type of advice?

Mr. LENAHAN. No; this is a committee structure under the GSA-approved committee system.

Chairman GIBBONS. These are open public meetings, is that right?

Mr. LENAHAN. They can be open and they can be closed. Normally, the meetings are conducted partly in the open and partly closed.

We have the same——

Chairman GIBBONS. What is the purpose for closing them?

Mr. LENAHAN. To discuss issues relative to negotiations with other governments, to discuss classified information when there is a need to discuss classified information.

We have the same structure for importers and retailers so that they can, on a continuing basis, provide us their advice, criticism, comments concerning the way that we administer the program.

With reference to the information, normally we are working on the basis of imports as they are received with the 1-month to 6-week lag. So when we do have a major import surge it can be harmful to our deliberations——

Chairman GIBBONS. You said 6 months' delay?

Mr. LENAHAN. Six weeks, excuse me. One month to 6 weeks under normal circumstances.

Can we tell when shipments are pending? Not often but sometimes. Socks is a good example in this instance, because we learned about 1 year ago that the Koreans and the Taiwanese, for example, were at that time purchasing heavy amounts of hosiery manufacturing equipment. So it sensitized us to more closely monitor import trade in socks from those two countries.

Mr. SIMPSON. Mr. Chairman, may I clarify something?

We don't transmit data directly to the Committee on Implementation of the Textile Agreements. We transmit it to Census, and that accounts for the additional delay before it reaches Mr. Lenahan.

Chairman GIBBONS. Well, let me ask you. Could you send it direct to Lenahan and carbon copy to Census? Would that help any?

Mr. SIMPSON. We pull a statistical copy of the entry and send it to the Census Bureau. We make no attempt to compile that information ourselves.

Chairman GIBBONS. Well, let me ask Mr. Lenahan. Would it help you to get it straight from customs? What does Census do with the data?

Mr. LENAHAN. Well, Census takes the information from the individual entry documents from a lot of individual ports and thousands of shipments daily, and compiles them into a country-category system that we can use in our analysis. Whether we did it or Census would do it, someone has to take the raw data and put that into a form that we can use.

Chairman GIBBONS. But is there any unnecessary delay involved in that?

Mr. LENAHAN. I don't believe, sir, that there's any unnecessary delay.

Chairman GIBBONS. No unnecessary delay. Obviously it takes some time to do all that.

Mr. LENAHAN. Yes, sir.

Chairman GIBBONS. Well, I've run out of my train of thought here Mr. Jenkins, do you or any of the others want to followup?

Mr. JENKINS. Let me follow up for just a minute, Mr. Chairman.

First of all, there were some statements made about the EC countries; I know that Mr. Crane mentioned that their tariffs are lower. I want to straighten out one thing. As I understand, in looking at the quantitative restrictions, the EC has quantitative restrictions much, much tougher than ours, are they not?

Ambassador IMUS. I don't believe so. If you would like to cite an example, perhaps I could comment on it.

Mr. JENKINS. From the figures that I am looking at, they have quantitative restrictions with almost every country outside of the Mediterranean area. They have a special arrangement with Portugal, but their quantitative restrictions are tougher than ours, are they not?

Ambassador IMUS. I do not believe so, no.

Mr. JENKINS. Do you think that they are more relaxed than ours?

Ambassador IMUS. I think that, by and large, both we and the Community have controlled trade effectively when we have been faced with problems from imports.

Mr. JENKINS. Well, I'll see. I'll just start back here. Total imports into the EC countries, 1981, they had an actual decrease of 17.5 percent in textiles, 11.5 percent in clothing; and in the same year, we had a 21 percent increase in textiles and a 17 percent increase in textiles. That's a 40 percent range, more than 40 percent difference. How were they able to accomplish this and we're not able to accomplish the same?

Ambassador IMUS. I think that the increase or the decrease in trade, Congressman, is very much a function of market demand.

And as I mentioned before, we have a markedly different economic situation in the economies of the Community and of the United States. I would point out, we looked at this particular question and tried to get comparable data, for example, on import penetration. And according to the information supplied to me through our office in Geneva, in 1983, when we had an import penetration ratio of about 19.8 percent, the Community's was 44.9 percent.

Chairman GIBBONS. I am having a little trouble with that microphone and so are some people in the back of the room.

Ambassador IMUS. All right. Let me climb into it, as you advised me earlier.

According to the data we have, in 1983 the import-to-production ratio in the Community was 44.9, and in the United States at the same time it was 19.8. That is measured in terms of total fiber consumption in textile mills.

Mr. JENKINS. Let me interrupt you right there. On their 44 percent, does that include or exclude other countries of the EC? Are you talking about the EC as a whole?

Ambassador IMUS. I am talking about the EC as a unit.

Mr. JENKINS. OK.

Let me ask you this. Does Canada have a global quota for cotton yarn?

Ambassador IMUS. A global quota for cotton yarn?

Mr. JENKINS. Yes.

Ambassador IMUS. I do not believe that Canada has a global quota, but I would have to check that and get back to you.

Mr. JENKINS. They had one in 1973–74 when it was first imposed. Have they done away with that since?

[The following was subsequently received:]

CANADA'S TARIFFS AND IMPORTS RESTRICTIONS ON COTTON YARNS

(1) Canada does not currently have any quotas on imports of cotton yarns.

(2) Canadian cotton yarn imports are classified under four major headings with tariffs as follows:

Tariffs:
- (A) British Preferential
- (B) MFN
- (C) General
- (D) General Preferential
- (E) UK and Ireland

52101-1, yarns and rovings include threads and cords, wholly of cotton, singles:
- (A) 12.5%
- (B) 14.2%
- (C) 22.5%
- (D) 0
- (E) 12.5

52105-1, plied cotton yarn for use in crochet, knitting, yarning or embroidery, packaged at retail level for household use:
- (A) 5%
- (B) 7.9%
- (C) 20%
- (D) 5%
- (E) 6.8%

52106-1, cotton yarn 70's or finer:
- No tariffs

52108-1, mercerized yarns, 80's or finer:
- (A) 0
- (B) 5.8
- (C) 30
- (D) 0
- (E) 0

Ambassador **Imus**. Canada at one stage left the MFA system and utilized their own global quota approach using article 19 of the GATT. Canada then decided to abandon that approach and reentered the MFA system.

Mr. **Jenkins**. I'm going to use the term administration to cover all the executive branch. Do you have a specific overall level of socks in mind when you consider what is acceptable in each product category, specifically, socks? Do you have an overall level in mind?

Ambassador **Imus**. We have an overall appreciation of the status of the sock industry and an overall appreciation of the total amount of imports, the total amount of production.

Mr. **Jenkins**. Specifically what I'm asking, using socks again as an example, do you have an overall 10 million pairs or 1 billion pairs or whatever you want to use when you commence your negotiations? Do you have a benchmark there to guide you?

Ambassador **Imus**. When we negotiate an agreement, quite often it is for several years, sometimes up to 4 to 6 years. And in those circumstances, it would be extremely difficult to have a specific benchmark prediction to what the market is doing. So we do not have a specific global quota figure in mind when we negotiate a specific category, although we are very cognizant of what is going on in the market. And as I said before, we have advisers present to assist us in that respect.

Mr. **Jenkins**. How in the world do you arrive at any figure if you don't have an overall benchmark figure in mind? You just guess?

Ambassador **Imus**. As I mentioned, we arrive at it in close consultation with the industry advisers that are with us.

Mr. **Jenkins**. Let me ask you a few questions on CITA, and I know my time may be running short.

Chairman **Gibbons**. You go ahead.

Mr. **Jenkins**. How does CITA make decisions? Does it do so by majority? By consensus?

Mr. **Lenahan**. Let me address that, Mr. Congressman, since I chair CITA.

If it is evident from the discussion of any given proposed call that there is no consensus for or against action, then the Chairman asks each agency to vote. The majority prevails.

Mr. **Jenkins**. Do you keep a record of dissenting views on the calls?

Mr. **Lenahan**. Both positive and dissenting views.

Mr. **Jenkins**. I know GAO had recommended that, and you're now doing that, keeping a record of dissenting views?

Mr. **Lenahan**. That's right. Since the GAO report, we have kept records.

Mr. **Jenkins**. Is that open for inspection?

Mr. **Lenahan**. I don't have it available with me. I would have to discuss with my Under Secretary the appropriateness of providing it.

Mr. **Jenkins**. I mean, is it possible for the committee to see how agencies voted on these various calls?

Mr. **Lenahan**. I'd have to discuss that with my Under Secretary, sir.

Mr. **Jenkins**. There is no reason why we shouldn't be able to see it, is there?

Mr. **Lenahan**. I'd have to discuss that with my Under Secretary.

Mr. **Jenkins**. Have there been deadlocks in important CITA decisions?

Mr. **Lenahan**. Have there been deadlocks? No, the decisions have been clearcut because there is a membership of five, so one way or the other we'll invariably have a majority. It is extremely rare that someone would not cast their vote, resulting in a deadlock.

Mr. **Jenkins**. Can the State Department refuse to deliver a call?

Mr. **Lenahan**. Can State refuse to deliver a call? Yes, I suppose they could refuse to deliver a call.

Mr. **Jenkins**. Has State ever refused, to your knowledge, to carry out a directive from the Chairman of CITA instructing it to make a call?

Mr. **Lenahan**. Yes, sir.

Mr. **Jenkins**. They have?

Mr. **Lenahan**. Yes, sir.

Mr. **Jenkins**. So you could have majority decisions many times out of CITA, and have State or possibly Treasury, even, refusing to carry out the directives?

Mr. **Lenahan**. Well, the Treasury has nothing to do with the carrying out of the directives.

Mr. **Jenkins**. Only in implementing, I assume?

Mr. **Lenahan**. They have little to do with implementing it.

Mr. **Jenkins**. Would your objections come primarily, then, from State? Would they be the agency that would object?

Mr. **Lenahan**. Well, I would not care to characterize the voting practices of various agencies at this meeting. When I said that State had declined to carry out the request of the Chairman to make calls, they were not voted calls, voted on by the committee, but calls made under the criteria established by the White House directive of December 16, 1983, which authorized the Chairman to make calls on the three major suppliers, Hong Kong, Taiwan, and Korea, under certain circumstances.

Mr. **Jenkins**. All right. Now, let me see if I understand what happens. When State refuses to make a call, as they have in the past, then what happens?

Mr. **Lenahan**. Then we discuss it at length.

Mr. **Jenkins**. And nothing happens?

Mr. **Lenahan**. In some instances State has changed its position; in other instances, it has not.

Mr. **Jenkins**. Does State have veto power, more or less?

Mr. **Lenahan**. I won't say whether or not they have a veto power. I will say that they have chosen not to take action——

Chairman **Gibbons**. Could you yield just for a minute, because I don't understand some of this.

What do you mean by a call?

Mr. **Lenahan**. A call, sir, and I'm sorry for the jargon, is a formal request to a foreign government asking to consult with them with a view toward the negotiation of a mutually agreeable quota level.

Chairman GIBBONS. Did I understand you correctly to say that on no voted call had State refused? Is that correct?

Mr. LENAHAN. They have not refused.

Chairman GIBBONS. They never have refused on a voted call?

Mr. LENAHAN. Not to my knowledge, sir.

Chairman GIBBONS. But apparently the President gave you, as Chairman of CITA, certain authority to make a call, is that right?

Mr. LENAHAN. Under the terms of the White House directive of December 16, 1983, I am empowered under certain circumstances to authorize calls on our three biggest suppliers.

Chairman GIBBONS. On your three biggest suppliers?

Mr. LENAHAN. Yes.

Chairman GIBBONS. And those are the kinds of calls that State has sometimes vetoed, is that right?

Mr. LENAHAN. Well, they have declined to transmit the message.

Mr. JENKINS. You don't have much of a remedy left, if State decides they don't want to transmit the call? You're sort of left in limbo. You just have to live with the level of imports that you have, even though the committee has decided that the call is necessary?

Mr. LENAHAN. Well, sir, as I've said, in some instances we've been able to negotiate out and make the call subsequently. In others, we have not.

Mr. CAMPBELL. Would the gentleman from Georgia yield to me?

Mr. JENKINS. Yes, I yield.

Mr. CAMPBELL. Thank you.

Mr. Lenahan, in your testimony to the other subcommittee that I referred to earlier, you answered a question that was posed to you. It talked about the result of the President's Executive order of December 16, 1983, which did give you—if I am not mistaken—the ability, as you have gone forward and said, to make some calls on the big three, but it also lets you use a different criteria for determining a call. I believe it lets you use the threat of market disruption instead of having to deal with it after the fact. Is that correct?

Mr. LENAHAN. That is as correct as I can recall it. I'm sorry, I don't have a copy of that.

Mr. CAMPBELL. All right. In that testimony, you said in answer to a question posed:

> Even with the additional criteria provided by the White House, CITA must determine whether specific imports from individual suppliers are causing or threatening to cause disruption. CITA agencies sometimes have different views on what constitutes disruption or the threat thereof.

And following Mr. Jenkins' line of questioning and your answers, are you telling us that even though the President of the United States has empowered you in certain instances to make a call, that he has set forth new criteria to stop a disruption and a displacement in the marketplace or displacement of workers, that because of a disagreement as to whether there is a threat or not, that we have instances where the State Department itself stops any action from being taken? And if we're dealing with the threat problem, we move on into the disruption if there is actually going to be a disruption? Is that what you're telling us?

Mr. **Lenahan**. Mr. Congressman, I'm certainly saying that with respect to calls on the three major suppliers, I have, under the terms of the White House statement of December 16, instructed the State Department to make calls, and they have declined to make those calls.

Mr. **Campbell**. At that point, when they decline, if the gentleman would yield a little further, what steps do you then take? Where is your court of appeals on that action?

Mr. **Lenahan**. Well, it's normally been a discussion both within my department, between my department and the State Department, other agencies, of course, having an interest in this, from time to time have become involved.

Mr. **Campbell**. Have you had occasion—has the Secretary had occasion to appeal any of these actions directly to the White House?

Mr. **Lenahan**. Not to my knowledge, sir.

Mr. **Campbell**. Why not?

Mr. **Lenahan**. I would have to let the Secretary speak for himself on that. I guess he thought it was a matter within his policy discretion, and he chose not to do so.

Mr. **Campbell**. What is the number—or would you give us a rough estimate, percentagewise—of the disagreements that you have not been able to reconcile with your department and with the State Department, or with this committee and with the State Department?

Mr. **Lenahan**. About 15, sir. [See letter at p. 65.]

Mr. **Campbell**. I thank the gentleman for yielding.

Mr. **Jenkins**. I know members are waiting, and I want to ask one question of Mr. Simpson.

We've had all kinds of reports of paperwork showing one type of commodity in a container when in fact it contained something else. Normally, does Customs have the manpower to open all the containers to make an inspection, or as a general rule do you just follow the paperwork?

Mr. **Simpson**. For most commodities, Mr. Jenkins, we don't attempt physical inspection. For high risk commodities like textiles, we almost always pull a sample. The inspector will pull a sample. If he has any question at all about the identity of the sample, he'll send it to one of our import specialists, who are more expert in making a judgment.

Mr. **Jenkins**. What is the average of containers that you look at? One out of twenty? One out of thirty?

Mr. **Simpson**. For textiles?

Mr. **Jenkins**. Yes.

Mr. **Simpson**. We look at almost every container.

Mr. **Jenkins**. You open every container?

Mr. **Simpson**. We pull a sample.

Mr. **Jenkins**. When you say you pull a sample, do you open each container, or do you pull one container out of so many?

Mr. **Simpson**. A container is a shipping container. It may be the size of a trailer.

Mr. **Jenkins**. Yes. That's right.

Mr. **Simpson**. We will open the container and pull a box at random and pull a sample out of that. If it's a container that has various kinds of merchandise, we may pull several samples. We have the authority to do that, and we have the manpower to do that.

Mr. **Jenkins**. All right. I know my time is up.

Mr. Crane.

Mr. **Crane**. Thank you.

Let me go back and clarify a couple of points that have come up this morning. One, we've established the fact, for openers, that in this particular industry the United States has categorically rejected free trade. Now, you have a very complicated job, it seems to me, in arriving at the criteria you have to employ inasmuch as we have rejected free trade and any effort at moving in that direction, to determine what are the various objectives we have in establishing what the tariff rates are going to be. And my understanding, Mr. Imus, and Mr. Lenahan too, that you indicated earlier that you did not know what the national security minimum requirement was. Is that correct, in establishing a criterion? You don't know what the national security minimal level of protection of this particular industry is, for openers?

Mr. **Lenahan**. Well, yes. I'll put that another way. In making our determinations, we do not look at the national security considerations.

Mr. **Crane**. But it seems to me that's the most important consideration for openers, since we have made the determination that it is our national policy to protect and to subsidize a domestic industry at considerable cost to the American consumer, and yet we don't even have the basic national security criteria established as an opening point in developing other criteria that obviously are taken into consideration, too.

So we don't know the basic criterion, for openers?

Ambassador **Imus**. We have an extensive set of criteria——

Mr. **Crane**. I know, but that has to be considered, probably, the threshold. Now, there are other criteria I want to get into with you. We don't have, as a point of departure, that minimal level of domestic production that is essential in terms of our national security interest, clothing for the military, the civilian population, making the tents, what have you. It seems to me that's got to be the first criterion since, as I say—your job is to protect an industry, and so that should be No. 1.

You indicated, Mr. Imus, that you arrive at these figures in close consultation with the industry. Let me ask you this question. Is that with management and ownership, or is that also with labor?

Ambassador **Imus**. Also with labor.

Mr. **Crane**. So then we've established that labor will make a degree of input here in terms of guaranteeing whatever the level of hourly wages and fringes is to protect the number of workers that we have currently employed? Is that the basic threshold there, that we're going to save all the jobs that we currently have in the industry?

Ambassador **Imus**. I'm sorry, Congressman, could you expand on that?

Mr. **Crane**. Yes. It has to be from the perspective of guaranteeing the employment of all the people who are currently in the industry, and guaranteeing the existing hourly wages and benefits, fringes, plus if you're making these determinations over a 4-year period, factoring in their anticipation of escalating wages over that 4-year period. So that's got to be another criterion that you've got to employ. If you're going to make a concession that you're going to save all the existing jobs and you're going to guarantee that we will continue to pay at the hourly rates we're paying people as an average in the industry, plus looking down the road 4 years from now, anticipating at least minimal cost of living increases, and probably somewhat more—that's got to be an important ingredient also, doesn't it, in establishing your criteria as to where we set these tariff rates?

Ambassador Imus. First of all, may I just clarify one thing? My responsibilities are for the negotiation of quotas and quantitative restraints. I do not have responsibility for the negotiation or the setting of tariffs at all.

Mr. Crane. Is that within your department, Mr. Lenahan?

Mr. Lenahan. Well, sir, not exclusively. The negotiation of tariffs normally falls under the aegis of USTR, but with many agencies participating in that process.

Mr. Crane. Well, this really goes to Mr. Jenkins' line of questioning. It's trying to establish criteria, and I've already established two; and yet, I get the feeling that these have not been established definitively within your respective jurisdictions.

I can think of a third. The third is the degree of profit that we want to guarantee the owners of the mills. Now, have you determined what is a reasonable profit for our domestic manufacturers? Should their return on investment be 10 percent, 20 percent, 100 percent? Certainly, there has to be some figure there when you're consulting with them as yet one more criterion that you're adding into all of these in making these determinations as to what the quota levels are going to be. Because, as I said earlier, the whole purpose of this is to guarantee the protection of a domestic industry and jobs and meet our national security considerations; and yet, I don't know whether you've established that criterion. I mean, what is the appropriate return on investment to the owners of the various industries that are producing textiles here in the States? Have you arrived at a figure there as to what is an appropriate return on investment?

Ambassador Imus. No, we have not.

Mr. Crane. Well, it puzzles me because of this cost, and it seems to me at some point that you've got to establish cost-benefit ratios. You're putting rather substantial costs on American consumers for the stated objectives of guaranteeing our national security, guaranteeing jobs, guaranteeing hourly wages and benefits, guaranteeing return on investment, and that those should be the criteria in a noncompetitive market situation in which we're operating, the sole responsibility you people have—and as I said, I don't envy you your job—the sole responsibility you have is to arrive at an understanding of how many jobs we're going to save, what guarantee of return on investment we're going to preserve, how we meet the national security interests, and then establish what the threshold figure is in terms of our import duties with our trading partners to meet those various criteria. And I was just curious if you could give me an idea, but I guess you can't without factoring those ingredients in—give me an idea of what that tariff figure would have to be to meet at least those three requirements.

What criteria do you employ?

Ambassador **Imus**. The criteria that are employed are the criteria that we have negotiated and agreed to in the multifiber arrangement. I have appended a listing of those criteria to my formal statement. They involve consideration of a number of the factors, even, that you have mentioned, although it is done on a case-by-case, product-by-product basis because that is the basis of the system that we have agreed to.

But to a great extent rather than guaranteeing a specific number of jobs or a specific profit, we follow the rules that we've worked out with our trading partners in the MFA to say to what extent imports are hurting or damaging the industry. And it would vary, I think, given the vastness of this industry, on a product-by-product basis; and, indeed, we are committed under the MFA to approaching it on a product-by-product basis.

Mr. **Crane**. Well, it would seem to me that after you've established an understanding of your basic guidelines, then the only attitude you can take is, "to hell with our trading partners." You know, they've got a problem. We've got domestic considerations; that's why we have fundamentally overturned the concept of comparative advantage in free trade in this industry, because we have these other domestic considerations. And who cares about trading partners, given that motivation and guideline that you people have to work under?

Sure—you know, we can take into consideration good relations; I mean, that's the whole basis of the debate that we had yesterday on what we're going to do to the Japanese, and that involves pharmaceuticals, telecommunications, forest products, and the like. So we've singled in on the Japanese, and we've decided to "slap the Japs" because we feel that they're not playing under appropriate ground rules. I personally am disturbed over the fact that we have a wholly—it seems to me—wholly inconsistent policy; in fact, I don't think we have a policy. Are we free traders? Or are we engaged in practicing free trade when it serves our own advantage, and then departing from that guideline? And please don't take this personally; you're the ones stuck with the burden. You don't make those policies. But in the absence of those policies, we obviously are willing to kiss off trading partners or bang them on the head any time it suits our fickle convenience, it seems to me, and that is what is a worrisome concern—I think it should be a worrisome concern—to the Congress, to try and establish some policy. And I don't see it. It seems to me to be hit and miss. In this area, we say, "We're going to exclude you to the extent necessary to meet whatever criteria we establish." In others, we dump on the Japanese for doing the exact same thing to us in other areas. And it makes it a little difficult, frankly, for us to get up and enunciate principles that we, as a Nation, seem to be committed to when we have these grave inconsistencies in what it is that we're attempting to do.

As I said, I don't envy you your job. Thank you.

Mr. **Jenkins**. Will the gentleman yield?

Mr. **Crane**. I'd be happy to.

Mr. JENKINS. The gentleman is asking if they take into consideration the number of employees. Today I think the figures are 1.9 million. If we're looking at their responsibility to preserve these jobs, I would simply point out that in the last 4 years you have 200,000 jobs less than you had in 1981. So obviously, if their responsibility is to preserve jobs they're not doing too good a job, because we've lost 200,000 in the last 4 years.

Mr. CRANE. Well, if the gentleman will yield back, I concede that point. You know, trying to make a 4-year projection—if you're factoring jobs in, and job preservation, then you've got to determine how many jobs you intend to save, what the hourly wages are going to be four years from now if you're going to preserve those jobs with the current wages and benefits. All of these should be the result, it seems to me, of conscious policy decisions rather than winging it. And I get the feeling that you folks, in your responsibilities, have to fly by the seat of your pants in the absence of some quite specific guidelines. And sitting down, as I say, with the representatives of labor, with the representatives of industry, with the representatives of the Department of Defense and determining what those bare minimum standards are and what we're going to be prepared to live with 4 years from now. And then you can arrive at some realistic figure and say, OK, here's where we set the figure. We know that'll do the job.

In the absence of that, it's just got to be a very complicated process.

Chairman GIBBONS. Thank you.

There were some other members of the panel with questions. Let's go to Mr. Pease first.

Mr. PEASE. Thank you, Mr. Chairman, just a couple of other questions.

Mr. Lenahan, on page 9 of your testimony you say that "On an overall basis, the quota program controlled 42 percent of 1984 import trade in nonapparel and 79 percent of apparel imports." Then you go on to say that imports of wool sweaters "are responsible for 68 percent of apparent domestic consumption. We currently maintain quotas on 15 suppliers covering 53 percent of 1984 import trade in wool sweaters."

If we're not covering 47 percent of import trade in wool sweaters, and the imports already account for 68 percent, it looks to me as if pretty soon imports are going to account for 100 percent. Is that a fair projection?

Mr. LENAHAN. Sweaters is a bit of an anomaly, Mr. Congressman. Of that 47 percent that is not controlled, a substantial amount comes from West Europe, specifically Italy and United Kingdom who are high cost producers and therefore not subject to the program. Another substantial amount of sweaters do not have, as their chief weight or value, cotton, wool, or man-made fibers. That is their chief value ramie or chief value linen, and therefore not subject to this control program.

Mr. PEASE. Well, what's your feeling about where the percentage of import penetration is going to go on wool sweaters? It's 68 percent last year. Do you anticipate that going up?

Mr. LENAHAN. We have, from low-cost suppliers, most wool sweaters under control. I don't have the figure with me; I can submit it for the record. It would be my view that from control of a low-cost supplier, we probably have in excess of 90 percent of their wool sweater trade under control.

Mr. **Pease**. So you would anticipate that the growth of penetration would be moderate in the years ahead?

Mr. **Lenahan**. I would presume that from low-cost suppliers, growth in chief value wool sweaters would be moderate in the future, yes, sir.

Mr. **Pease**. Mr. Imus, in your verbal testimony you mentioned legislation before the Congress with which you disagree. I did not find reference to that in your written testimony. Could you repeat the gist of your comments on any legislation pending before Congress?

Ambassador **Imus**. Yes. At the time that my written testimony was prepared we had not finalized an administration position.

Summarizing very briefly, I basically commented on my view of the compatibility of the proposed legislation with the MFA. The MFA, if you read through the yellow book here, basically sets up the system of mutual agreement, of negotiation. The legislation, in contrast, sets up certain criteria unilaterally on our part. The MFA also has—and I appended that to my written testimony—some extensive criteria under which you can ask for quotas. Those criteria are not addressed at all in the legislation. The legislation provides for the establishment of quotas on other bases, for other reasons.

There are distinctions within the legislation between, for example, Mexico and Brazil, that are not compatible with the MFA. There is special treatment accorded to the European Community, to Canada, to the Caribbean Basin countries, and to Mexico, which is not compatible with the MFA. The legislation requires or mandates the establishment of unilateral quotas over a multiyear period. And as I mentioned earlier, the only requirement or authorization in the MFA for the establishment of a unilateral quota is article 3, and that allows the establishment of a quota for only 1 year. And therefore, there is a degree of inconsistency there as well.

Mr. **Pease**. Could you give me the bill numbers? Do you have those?

Ambassador **Imus**. Let me go back. H.R. 1562 and S. 680.

Mr. **Pease**. Well, I'd like to ask you a more general question, if I may.

It appears that the percentage of the U.S. market captured by imports has been rising rather quickly and is likely to continue to rise as the U.S. market grows rather slowly and imports grow at a substantially faster rate. You have described your system very well. I assume that you are doing an effective job of administering that system. However, some of the reasons we've discussed today indicate there are clearly some holes in that system that exporters from other countries will want to take advantage of. Also, frankly, importers in this country and retailers will want to take advantage of them. So whenever you establish a quota for any particular item, for any particular country, immediately the exporters from other countries, the multinational corporations that can move around, and the importing retailers will be trying to figure out how to get around that. And obviously, they have a great ability to do that.

In light of that, I wonder what your reaction would be to some kind of restriction on imports as a fixed percentage of the U.S. market. In other words, should we limit import growth to the overall growth in the U.S. domestic market as opposed to the system which is now in place?

Ambassador IMUS. As there has been no formal proposal along these lines, there is no administration position. But to be responsive to your question, let me give you a personal—not even a USTR—view, and that is, the administration is, until the end of July 1986, committed to the multifiber arrangement and there is nothing in the multifiber arrangement that would authorize or permit that type of approach. And therefore I would find, personally, that type of a freezing of market share to be equally inconsistent with the multifiber arrangement.

Now, I would point out that the multifiber arrangement is up for renewal and at that time, I think that lots of people, not only our domestic industry but our importers, and retailers, and our foreign trading partners want to take a very intense look at the system.

Mr. PEASE. Well, let's assume that we would not make any change prior to July 1986, but that in the process of renegotiating the MFA the administration could seek an overall limitation on imports, requiring them to grow no faster than the domestic market. What are the pros and cons of doing that?

Ambassador IMUS. Well, if we decided to have a further MFA, which we haven't yet, and if we could get those 46 countries that are participants in the MFA to agree with us, then since the MFA is a special regime under the GATT, we could have whatever we had in the MFA. In terms of the way you posited the question, a "freezing of market share," it seems the advantages would be considerable to our domestic manufacturing industry. I think that those who are concerned with consumer costs would argue that it would be disadvantageous to the American consumer. I'm assuming that we could negotiate this and that these 40-some-odd countries would agree to it, which I personally am quite doubtful of. But if we could, it seems to me that, in short hand, the advantage would be to those who desire a greater degree of protection and there would be a greater degree of stability, obviously, for all parties concerned. And its negative aspect is that obviously it would lessen but not eliminate some competitive pressures.

Mr. PEASE. Thank you very much.

Thank you, Mr. Chairman.

Chairman GIBBONS. Mr. Frenzel.

Mr. FRENZEL. Mr. Chairman.

When you have discussed the subject of calls with Mr. Crane and others, you indicate that you don't really have much of a standard for making a call, nothing that business people can rely on. Do you make them on a whimsical and arbitrary basis, as sometimes people allege you do? [Laughter.]

Mr. LENAHAN. Have I beaten my wife lately? [Laughter.]

Mr. FRENZEL. Do they come to you and flash you some light from Heaven, or telephone calls from the White House, or——

Mr. **Lenahan**. No, unfortunately. No flashes of light, Mr. Congressman.

We do have a large body of country and commodity experts within the Commerce Department who spend their time exclusively analyzing trade from individual countries, imports on a category basis, and others who monitor closely activity in the domestic market.

Based on their recommendation, CITA takes action. Over any given period of time there is a relative consistency between CITA's actions on one category from one country and another category from a third country. It's not an absolutely certain thing, but I do believe the people who follow our activities over time have a fair sense of what we are doing, sufficient so that they can anticipate their business requirements.

Mr. **Frenzel**. Well, I think the problem is that since you put the new criteria into effect, you've made 145 calls and imposed 120, approximately, new quotas. I'm citing this from the committee's paper to prepare us for these hearings. In the 2-year period, 1983 and 1984, you put 200 new import quotas into effect. How are we going to predict what you do when you put 200 new import quotas into effect? How are we going to predict what you do on that basis? That means that every other working day in those 2 years, you are sticking out a new quota. How's the world going to keep up with that?

Mr. **Lenahan**. Well, those quotas did not come in a vacuum, Mr. Congressman; they were as a consequence of a very large surge in imports. Any good analyst can track our activities. If we call one country—for example, in men's cotton jackets—at 30,000 dozen, then it's likely, unless there is a vast increase in domestic production, that we would call another country in the range of 30,000. I've had my staff——

Mr. **Frenzel**. Well, all I want to know is, do the people who buy underwear and socks and don't like to pay a lot of money ever call you up and tell you not to make calls? Or do you simply respond, as alleged, to press releases from certain Members of the other body who believe that the industries that are located in their areas are under terrible pressure and that the unemployment is overwhelming?

Mr. **Lenahan**. No; we are in constant contact with importers and retailers, and often do not do the bidding of the domestic industry because we learn from importers or retailers that such and such fact applies, and a call is really not an appropriate thing to do under the circumstances.

Mr. **Frenzel**. Are you running at an every other day pace now?

Mr. **Lenahan**. No, sir, we are not. I believe that in the 3 months since January 1, that we've made 13 calls.

Mr. **Frenzel**. Between your calls and Mr. Simpson's country of origin rules, I'm informed that what has happened is that the external industry is simply moving around, and what you will get—or maybe what you're getting now—is a movement of looms and spindles to different places. Is that your observation?

Mr. **Lenahan**. Yes, sir; but that's not a new phenomenon. That's been with us since we first took action to control Japan in the late 1950's.

Mr. **Frenzel**. Yes; and I think Mr. Simpson's agency's work will result in the moving of spindles from the Far East to the EC, which is an interesting sort of change. May I ask you, Mr. Simpson, if you're going to invent some new rules for country of origin?

Mr. **Simpson**. Mr. Frenzel, we're satisfied that we have not invented any new rules. We did codify rules that had existed before only in the form of individual rulings issued to individual importers. But we have rules of origin that have been in place for over 50 years in pretty much the same form. They have evolved a little bit, but not so that they wouldn't be recognized by a judge of 50 years ago. We think they're pretty well known to trading people around the world, and we have no plan——

Mr. **Frenzel**. I just want to respond to that, before I yield to Mr. Crane, to indicate that importers and exporters think you've changed the rules; the people of Guam think you've changed the rules; the people of PRC think you've changed the rules; everybody who operates out there thinks you have. I think if you dig up that judge of 50 years ago, he'd faint when he saw your rules.

Mr. **Simpson**. I think what happened, Mr. Frenzel, was that we had rulings on the same issue, country of origin, being issued by several different offices within the Customs Service, and there was a lack of uniformity——

Mr. **Frenzel**. We've noticed that.

Mr. **Simpson** [continuing]. Lack of uniformity which I hope we've been able to correct, but importers were taking advantage of some of our rulings. And we've closed the loophole.

Mr. **Frenzel**. You have cured the problem by shooting the victim, I think.

Mr. **Simpson**. Well, there has to be a casualty.

Mr. **Frenzel**. Unfortunately, the casualty is the American consumer.

May I ask further, when you published your new country of origin rules, it was announced that they were going to extend to all commodities, not just textile and apparel commodities. Is it still the Department's intention that that be the case? Because if you do, you've got more than just one industry messed up; you've probably got the whole world messed up.

Mr. **Simpson**. The rule of origin that was published on March 5 in the Federal Register essentially has two parts. The first part, is the general rule of origin, which we maintain has existed almost unchanged for the last 50 years. The second part of it is some specific application of that rule of origin to textile trade. We have no intention of preparing or of implementing any new specific rules of origin for other commodity lines, but we do intend to apply—and we have no other choice—the general rule of origin to other merchandise in making origin determinations for a lot of purposes.

Mr. **Frenzel**. Well, that's good news for the trade community. It probably puts a lot of lawyers in this room out of work.

I'd like to yield to the gentleman from Illinois.

Mr. **Crane**. Thank you for yielding.

Something came up in this line of questioning that I'd like answered by you folks. Does the President or someone in the administration simply communicate to you what the rules of the ball game are going to be vis-a-vis trade with any given country at any given time in terms of what quotas one country will be allowed versus another? In other words, you're not getting your guidelines from us, I gather, but these are kind of subjective and discretionary things and someone says, "OK, open up the market to the Communists on the mainland."

And the reason I asked this is, looking at the hourly wages, 26 cents an hour on mainland China versus $1.89 an hour in South Korea and $6.28 an hour in Japan—I mean, this can profoundly affect the market. Are these just decisions made, presumably, because we want to ingratiate ourselves with expanded trade with, say, the People's Republic? Is that how that's done?

Ambassador **Imus**. The decisions to make a call are based upon—to request the consultations for the purpose of setting a limit—are based upon what's happening in the U.S. market, both in terms of the domestic situation——

Mr. **Crane**. But I mean, who calls the committee together to make that decision? Who is it that initiates all that?

Ambassador **Imus**. The chairman, Deputy Assistant Secretary Lenahan.

Mr. **Crane**. And where do you get your input, then, Mr. Lenahan? Is that just the number of people who have called you from around the country?

Mr. **Lenahan**. No, sir. Basically, I get my input from my staff, who monitor imports and monitor activity in the domestic market.

Mr. **Crane**. And none of that is initiated from the other body or the House Members calling in to your office?

Mr. **Lenahan**. No, sir; occasionally an industry will ask us to look at a specific sector where they think they're in trouble, or where trouble is looming. And if my staff feels there is merit, based on the data which they collect, then we will take a look at it.

Mr. **Crane**. Let me ask one final question as a followup to this, if you will yield further.

Would it not be helpful to you in your jobs for the Congress to try and establish some guidelines, going back to my earlier statement? I mean, some criteria for you to operate on, that there are minimum security requirements, there are minimum labor requirements, there are minimum industry requirements? I just looked here, for example, at "1984 Textile Plant Closures by State;" 34 plants have gone under in just 1984.

Now, since we're in a protected industry, why didn't we save those 34 along with all the rest? You know, we don't seem to be operating, as I say, under minimal guidelines, and it seems to me that that is a paramount function of the Congress, not the executive branch, to establish what the guidelines are; and that that would greatly simplify your job in arriving at the cost-benefit ratios. How many trading partners do we want to kiss off in exchange for the domestic objectives that we want to meet? How many consumers do we want to bang on the head with $10 skivvies, if need be, in exchange for saving *x* number of jobs and guaranteeing *x* number of employers are still going to be in business?

These are the guidelines that seem to be lacking, and I think Congress is remiss in not giving you something to go on that is more specific and more targeted toward what we have established as national policy on our needs as a country. And that would be much more beneficial than having to wait to hear some outraged employer say, "Hey, my plant's going belly up, and it's going belly up because I know somebody's been moving into my markets with foreign trade."

Would you respond to that?

Ambassador **Imus**. Congressman, I can simply say that obviously a unilaterally declared regime by one country—by us, say—is easier for me as an official to deal with than a complex system of compromise that has evolved with 46 countries over 25 years. I think common sense shows that. What I tried to point out in my original testimony however, is that it would appear there would be some costs to that because it would involve leaving the multifiber arrangement and that's why I mentioned the questions of retaliation.

Mr. **Frenzel**. Thank you.

Mr. Lenahan, before I place that question, I should say to Mr. Simpson, when I referred to you I was referring to the Service, not to you personally.

Has there been a call made on cotton sheets recently from Israel?

Mr. **Lenahan**. Yes, sir, there has.

Mr. **Frenzel**. When did you make that call?

Mr. **Lenahan**. I believe it was in the past week.

Mr. **Frenzel**. The past week?

Mr. **Lenahan**. Within the past week, yes, sir.

Mr. **Frenzel**. And you made that call notwithstanding the Israel free trade agreement, which has been signed by both countries and is in the ratification process under the 1974 law?

Mr. **Lenahan**. That's right, sir.

I might add on that, that I did not participate in the Israel FTA negotiations. It was my understanding that our negotiators, during that negotiation, made it clear that we would reserve our rights under the multifiber arrangement.

Mr. **Frenzel**. We have that understanding, too.

Now, does your call include flannel sheets?

Mr. **Lenahan**. It would be all chief value cotton sheets, including chief value cotton flannel sheets, sir.

Mr. **Frenzel**. Are flannel sheets manufactured in the United States?

Mr. **Lenahan**. I believe so, sir.

Mr. **Frenzel**. Can any of the panel tell me if that's true?

Mr. **Lenahan**. If you would like, I can get you that data for the record. I recently bought cotton flannel sheets—recently, 1 year ago—and they were American made.

Mr. **Frenzel**. OK. Information given to me indicates that we either don't manufacture very many of them, or that there was not a good reason to call flannel sheets. I would like to have the Department's response to that. I agree that we retained under the agreement certain abilities to operate under other agreements and under the law, but that call at this time looks as though it's intrusive into the negotiating and ratification process. I would like to have some sort of response for this committee on the basis for that call. I hope that you have a good basis for it.

Mr. **Lenahan**. Yes. If I might add on that, Mr. Congressman, that call on cotton sheets was on all cotton sheets, including flannel sheets. I would further add that at approximately the same time that we made the call on Israel, we also made calls on Portugal and Brazil because it is the view of CITA, based on data provided to CITA, that there exists either disruption or the threat of disruption.

Mr. **Frenzel**. OK. I'd like to have that data for the record, and particularly with respect to flannel sheets. We, of course, have no free trade agreements under negotiation with Brazil or Portugal insofar as I'm aware. That's my source of concern and I would be indebted to you if you could provide that for the record. [See letter at p. 65.]

Again, our committee research here indicates that the prices of textiles have risen more slowly than other consumer goods in the past 5 years in the United States. In your judgment, is that due to the increase in imported materials?

Mr. **Lenahan**. In my view, the increase in imports would be a factor in that more moderate price growth. The almost phenomenal increases in productivity in the industry would be a principal factor, as would be the relative moderation in wage growth within the industry.

Mr. **Frenzel**. So all of those factors have tended to keep price increases to consumers at a level less than other items in the CPI? Often it's alleged that imported goods' price differentials never filter down to the consumer. It seems in the last 5 years that that allegation is not, at least, wholly true.

I'd like to ask you about the costs of quotas in Hong Kong. That's another matter that our committee gets into. As I understand it, in Hong Kong they have a nice little system where they sell export quotas to the United States so that by the time the product gets here, it's carrying a 25-percent added cost, which is, in my judgment, a needless cost. Do you want to comment on that, either of you?

Ambassador **Imus**. I might, Mr. Congressman.

First of all, to clarify, based upon my understanding and conversations with the Hong Kong Government, the Government of Hong Kong does not sell import quotas——

Mr. **Frenzel**. No, but they are bid on.

Ambassador **Imus**. They distribute quotas to the private sector.

Mr. **Frenzel**. Which in turn sells them between each other. That is correct. But the Government administers the quota program?

Ambassador **Imus**. Yes. In fact, all of our agreements are export control agreements.

And I think that what you find in Hong Kong quite often is that as a commodity is in demand in the United States, newer importers want to bring that in and they find that, quite often, established importers have the quota rights locked up. So they have to bid on the market for what's called "free quota" and sometimes those prices become quite expensive. And we had a situation, I think in the last year or 18 months, where you saw that in terms of sweaters. The prices do go up and down.

Mr. **Frenzel**. Well, according to this report, in 1980 those costs ran from $200 to $300 million extra loaded on the American consumer, which didn't go to any good purpose. We do not want to support that. I have here a study that concluded that the total value of quota rents in a given year was $218 million, or 23 percent of the total value paid by U.S. importers to purchase those products. Do you contest those figures?

Mr. **Lenahan**. I believe you're quoting from the FTC study on that——

Mr. **Frenzel**. That is correct.

Mr. **Lenahan**. Yes, sir; I would question those. I think it needs more research.

Mr. **Frenzel**. Do you think that they are overestimated or underestimated? Do you think that they——

Mr. **Lenahan**. I think they are probably overestimated.

Mr. **Frenzel**. So you don't think it is possible to determine the prices of quota rents in Hong Kong?

Mr. **Lenahan**. I didn't say that. I don't think that enough study has been given to the subject.

Mr. **Frenzel**. OK.

Do you have a feeling on that, Mr. Imus?

Ambassador **Imus**. I think that there is no doubt, whether it's in textiles or in cheese or anything else, where you have a quota, there's a cost to a quota. And if you decide to have a quota, there are certain benefits that you're going to derive from that quota that make the cost worthwhile. I think whatever the specific figure is, based on my observation, there is substantial cost to quotas.

Mr. **Frenzel**. I would merely suggest that neither the Congress nor the Commerce Department is probably a better estimator of costs than the FTC. It is anybody's guess, but there are certainly costs involved.

I'd like to ask you, Mr. Imus, are you going to be the head negotiator at the MFA?

Ambassador **Imus**. I will be the head negotiator for the beginning session, but I will be leaving this position in the fall and will not continue to negotiate through to the end of the MFA.

Mr. **Frenzel**. Well, congratulations. I assume that you have secured a fancy new position, and we wish you good luck in it.

Ambassador **Imus**. Thank you.

Mr. **Frenzel**. How will you be assisted by Commerce in these negotiations?

Ambassador **Imus**. In two ways. One, the Commerce Department, as the "secretariat," as it were, for CITA also provides the negotiating teams with a great deal of technical data. We've developed a substantial amount of technical data on our own in USTR, but as you're aware, USTR is a small agency.

Mr. **Frenzel**. Is Commerce represented with you at the bargaining table?

Ambassador **Imus**. Commerce and Labor, which also makes a contribution——

Mr. **Frenzel**. How about State?

Ambassador **Imus**. State Department is there.

Mr. **Frenzel**. How about Agriculture?

Ambassador **Imus**. The Agriculture Department, at the moment, is not.

Mr. **Frenzel**. It must be an exciting process. [Laughter.]

The State Department, of course, continues ongoing commodity negotiations all year around on all subjects out of our London Embassy, I'm told. And you're the one that has to make order out of that dish of chaos, you and your successor.

Did you participate in the last round?

Ambassador IMUS. Yes, I did, Congressman.

Mr. FRENZEL. Did you feel the U.S. position was sufficiently focused so that the fact that we had all these spear carriers over there did not interfere with our central negotiating thrust?

Ambassador IMUS. I believe that our negotiator at the time, Ambassador Murphy, had full control of the delegation and knew where he was going and what he was about. He drew on the help of the other delegation members, but he was certainly very much in charge.

Mr. FRENZEL. And you believe that you will have the same authority as you begin the negotiations?

Ambassador IMUS. Yes, I do.

Mr. FRENZEL. Thank you very much.

Chairman GIBBONS. Mr. Campbell?

Mr. CAMPBELL. Thank you, Mr. Chairman.

We've gone through quite a lot of questioning. I want to take us back and perhaps put a little different perspective on some of the statements.

We said that this country had, as a given, rejected free trade in textiles. I think that that statement is wrong for this Nation. I think that you would have to agree that we evolved over a period of time, after Smoot Holley back in the twenties, then through Cordell Hull, and then up through the agreements through the years, and then finally for the short agreement, the long agreement, and then we got on into the GATT, and then a short agreement, a long agreement, then the MFA. So we had an evolutionary process of bringing about rules of trade to overcome the protectionism, the blatant tariffs, and that sort of thing that existed. Isn't that generally a true statement of how we got to where we are in our textile trade, and don't we now operate under agreed-to rules in the international marketplace under the General Agreement on Tariffs and Trade and specifically under the multifiber arrangement, and those are agreed-to arrangements? It's not a protectionist thing that the United States did; is that a correct statement?

Ambassador IMUS. Both the GATT and the MFA are internationally agreed to instruments. They are not dictated by the United States. They do both involve rules in the sense of the MFA. They are rules which the participants have regarded, however, as temporary rules in order to allow the free market to adjust.

Mr. CRANE. Wait for a second there. That's an important point to get clarified. Rules and agreements do not constitute, necessarily, free trade. And if you'll look at these figures, Carroll, you know, the ones that are out of the Ways and Means Committee booklet here—on fibers, for example, when our tariff rates are 3.4 percent, for example, and EEC is six-tenths of 1 percent and Japan is five-tenths of 1 percent, that may be an agreed-upon ratio, but it's not free trade.

Mr. CAMPBELL. Well, I understand; I'm not trying to say that it is. The point that I'm trying to make, Mr. Crane, is simply that the

United States didn't unilaterally decide that there would not be free trade in textiles, that there was a general agreement across the world as to how we would trade, and that it wasn't unilaterally imposed by us, that we would not trade freely. I didn't want to leave that impression. That was what I was driving toward, and I appreciate that point.

Now that we have the General Agreements on Tariffs and Trade and the multifiber arrangement, under which we have negotiated bilateral agreements with others, isn't it true that the President issued his directive of December 16, 1983, and Executive Order 12475, the Rules of Origin, to deal with violations, largely, of existing agreements?

Ambassador IMUS. I would not, certainly, in the case of the December 16 criteria, agree with that statement.

Mr. CAMPBELL. Would you agree with it on Executive Order 12475?

Ambassador IMUS. I think that the Executive order was issued to deal with problems of circumvention.

Mr. CAMPBELL. Circumvention—that's a violation, right?

Ambassador IMUS. It is a circumvention; it's quota engineering, just like you have tax engineering. There are a number of things going on which were legal under the agreement, but which might not have been in conformity with the spirit of the agreement. My colleague, I'm sure, would want to address this in greater detail.

Mr. CAMPBELL. Nonconformity with the spirit? Well, I have here before me Mr. Simpson's statement where he says that these schemes—he calls them schemes—"were and are becoming increasingly more sophisticated and complex. Customs employees have uncovered counterfeit visas"—I guess that's a circumvention—"false export documents"— surely that doesn't break a law—"counterfeit trademarks, undervaluation, overvaluation, all to avoid dumping and countervailing duty assessments and avoidance, understatement of weights and quantities, and transshipment of quota merchandise from tight quota countries to those that have unused quota." And I guess that that was a circumvention that violated the spirit; I guess all that would violate the spirit, and not law.

Ambassador IMUS. Absolutely not. Those were aspects, in my view, of clear fraud. Just so we understand, or I understand, what I was responding to earlier was the rule of origin question——

Mr. CAMPBELL. The rules of origin defines what is substantial transformation, doesn't it?

Ambassador IMUS. That is correct.

Mr. CAMPBELL. And it also sets up a mechanism to prevent transshipment and to give data to Customs and, in fact, to set forth for them clearly a mechanism to deal with circumvention of existing agreements, transformation, or transshipment. Is that not correct?

Ambassador IMUS. That's my understanding.

Mr. CAMPBELL. So they were set up to try to stop some of this stuff that was going on.

Ambassador IMUS. Oh, absolutely.

Mr. CAMPBELL. Well, the point that I'm trying to get to is—you see, we didn't just unilaterally go out and do these things; we were party to international agreements. Operating under umbrella agreements, we were parties to bilateral agreements. Those bilateral agreements were being violated, in many instances. There were people that didn't live by the spirit nor the letter of the agreement, calling the agreement law, and so we took further steps, the administration took further steps. Now, whether the State Department thwarted them or not is another question, but they did take other steps.

Now, what I would like to ask, and I think this is important when we discuss this on other nations—we've already also established some other things. No. 1, the world now has set up these things, not the United States. The second is, is it not true that from time to time we have seen some evidence of targeting products in this country by other nations?

Mr. LENAHAN. Let me address that, Mr. Congressman. If targeting connotes deliberate planning to attack a deliberate sector, I cannot say if what we have seen is targeting in that sense. We have certainly seen instances where one country, or a number of countries, have focused in on one product and have shipped massively in short periods of time at what I would consider to be relatively predatory prices.

Mr. CAMPBELL. OK. With shipping with predatory prices in one product, below our market rate, below even—in some instances that we have had, even below the production rate of the product, selling below the market—it would lead one to believe that there just might be an effort at targeting in that area, whether we have established it or not.

Now, I'll followup and say that if there were an effort at targeting when they come in at predatory prices, and massive amounts, and so forth, and if in fact they broke out the market—in other words, broke out the American market and the ability to produce—would it not stand to reason, under that circumstance, that then those who came in below market at a predatory rate and so forth would then fill the vacuum when the U.S. industries could not produce any more because they had fallen victim to this predatory pricing, and that those people would fill the vacuum? And certainly we wouldn't expect them to maintain their low rates, things of that nature. Is that not——

Mr. LENAHAN. Yes, that's consistent.

Mr. CAMPBELL. OK. So we're dealing with situations and trying to determine overall whether—in dealing with trade—whether we have rules of origin that are trying to let people live up to the agreement that they've had with us—we're not trying to protect *x* number of jobs and establish that we're going to have a loss of 500 jobs this year, we're going to gain 10,000 next year; we're dealing with agreements, internationally, multilaterally, bilaterally, that we are trying to play by, that we are asking our trading partners to play by, and we're trying to enforce what we have agreed to and what they have agreed to. Isn't that correct?

Now, when we set forth criteria for issuing calls and things of this nature, certainly a criterion would be a massive influx of goods at below-market price in a given product, wouldn't it? You wouldn't have to go out and see whether they were going to lose 10 percent, 20 percent, or 70 percent of the jobs if something like that happened. That would trigger a look at that situation. Isn't that correct?

Mr. **Lenahan**. That's correct, and that's in accord with the MFA——

Mr. **Campbell**. In accord with the MFA,

Mr. **Lenahan** [continuing]. That imports at lower prices are criterion for disruption.

Mr. **Campbell**. So what this industry is facing and is asking, and you're trying to enforce, are existing agreements, compliance with the law, and to stop predatory pricing? In other words, they're trying to find some sort of a fair playing field in the international sense. Would you agree with that?

Mr. **Lenahan**. Yes.

Mr. **Campbell**. You do agree with that?

Mr. **Crane**. Carroll, would you yield on another question——

Mr. **Campbell**. Would you let me follow one train just a minute, and then I'll—go ahead. I'll come back.

Mr. **Crane**. Again, it's the utilization of terms. A "fair playing field"—what if you were playing on a field, in a football game, where you were told that you were not allowed to penetrate past the 50-yard line? If those were agreed-upon rules for playing the game, then you could insist upon enforcement of the rules, but you still wouldn't necessarily agree that it's a fair playing field.

Mr. **Campbell**. Well, I would define the playing field a little differently. I would define it roughly with our industry being told to defend one goal on a football field, and there being a 7 percent slope going up to the other goal. I don't call that a fair playing field.

But the fact is that—and the point I keep going back to—is that we have set up these rules. Now we're trying to enforce these rules. Customs has outlined ingenious means where people have tried to circumvent the rules.

I would like to ask Mr. Simpson, if I might, what have you done to target on textiles? I've noticed that you've assigned 64 new employees on it, and under the Tripwire effort you say that textiles is a major part. What part? How much are you concentrating on this textile problem?

Mr. **Simpson**. We don't have employees, Mr. Campbell, who are dedicated to looking at textiles only, but we do know that textiles is one of the three areas of trade which is, for customs, highest priority.

Mr. **Campbell**. I'm sorry, Mr. Simpson, maybe I misunderstood. I'm reading here, it says: "At the beginning of this fiscal year, positions dedicated to textile enforcement were increased by 64." Could you tell me what that means?

Mr. **Simpson**. I stand corrected; I'm told we do have people who are, in fact, dedicated to textiles and do nothing else but textiles, and it includes laboratory people, and import specialists, and attorneys, and special agents. I was under the impression that those people moved in and out of textiles and other investigative targets, but I am told now that they are dedicated to textiles only.

Mr. **Campbell**. All right. Well, let me go back and follow this question a little bit.

You have outlined also in your testimony the problems that we have had with split shipments. You have the Textile Fraud Program, which is a major enforcement target under your Tripwire.

You have an automated commercial system, and I notice that you now have automated 31 ports and another 30 or so are operating under the same criteria except doing it manually, and that you are soon to integrate those into the whole system.

My question is, how many ports are we dealing with and how long before we can have the whole thing integrated?

Mr. **Simpson**. All of these ports will be on what we call the ACCEPT system, which is a system for targeting high risk shipments for inspection and sampling. Not all of them will necessarily be on an automated ACCEPT system because they simply don't have the volume of merchandise to warrant it, but we give them a computer printout which helps them to identify the shipments that need more intensive examination.

Mr. **Campbell**. Has this system helped you in intercepting shipments that would be illegally coming in?

Mr. **Simpson**. Yes, it has, very greatly. It enables us to give inspectors around the country the benefit of the experience that other inspectors are having, so that if we find on the west coast there is a particular problem which has developed, we can transmit that information to inspectors on the east coast in time that they can make use of it. It's been very helpful to us.

Mr. **Campbell**. What else do you think that you should—or does customs need, or you should have—to deal with the problem? We have agreements internationally; we have rules of origin as a tool to aid you in this; you have your December 16 directive from Commerce on presumption of market disruption; you have all of these things. What else do we need? I'm not talking about any more quotas, or anything—what do you need to enforce the existing law so that we eliminate that side of the problem? Or certainly control it better than we're doing now?

Mr. **Simpson**. Mr. Campbell, I don't think we will ever be able to detect every violation of law. But I think we are doing a job now that is not only creditable, but that is about as effective as we can reasonably expect. I don't think customs' enforcement of the textile agreements is the weak link in our textile restraint system.

Mr. **Campbell**. Let me ask Mr. Lenahan or Mr. Imus. Would an import licensing system in this country aid us in any way?

Mr. **Lenahan**. It would depend on the nature of the import licensing system. I could foresee, for example, where if you had advanced notification of the intent to import, with sufficient time involved, then you could more quickly assess the potential for disruption of the domestic market. I shudder at the thought of the administrative bureaucracy that would be required for an import licensing system because there are thousands and thousands of import transactions involving textiles and apparel on a daily basis, and just with our current system, which I think is adequate—it can always be improved, and we're working to improve it—the numbers all but boggle us, and the numbers of items and entries. It's just a very complex system.

Mr. **Campbell**. But the European Community uses such a system, or a system of import licensing?

Mr. **Lenahan**. Yes, they do, but for basically other purposes, I believe.

Mr. **Campbell**. They also have another few little tools to deal with trade, such as a value-added tax that can be dropped off at the borders and put on merchandise coming in; isn't that right?

Mr. **Lenahan**. Well, they have the value-added tax system.

Mr. **Campbell**. But they have that option, too, don't they? Applying it to products coming in and dropping it off at the border going out, correct?

Mr. **Lenahan**. Yes, sir.

Mr. **Campbell**. We don't have anything like that, do we?

Mr. **Lenahan**. No, sir.

Mr. **Campbell**. So when we talk about their free trade, and our free trade, they have a tool there that they can use in trade to gain a little edge one way or the other, if they so choose. Isn't that right?

Mr. **Lenahan**. Well, they have a value-added tax system. I'm no expert——

Mr. **Campbell**. I just didn't want anyone to think that we've got free trade everywhere in the world, and nobody uses tools in the European Community. It's just like the Hong Kong quota market. I'm going to end on this, so I'll just make an observation on it.

It was interesting to me; I had some firsthand experience, as I'm sure you all are well aware. And I learned that the allocation of quota in Hong Kong is not necessarily to manufacturers, but to people who may have been in manufacturing, or maybe their daddy, or granddaddy had been in it in the past, and then they sell the quota on the market. And yes, there is a market there, a quota market in Hong Kong that's unusual. The biggest houses I saw in Hong Kong were the quota traders' houses. I don't how much the dollar figure is, but the $200 million over there that Mr. Frenzel quoted a little earlier doesn't sound like it misses the mark too much.

So I think that their system is unique and certainly, Mr. Imus, you made the point that in quotas, sometimes there are costs and all, but I do think theirs is different from a lot of other parts of the world.

I want to thank you for your very candid testimony today, and thank you for the information that you have given me in response to the questions I've asked. I don't have solutions, but I do see that we have identified at least some of the problems. Some of them are in enforcement, in dealing with existing agreements; some of them are in possible strengthening of agreements with other countries or expanding our ability to react more quickly. And I think those things are very helpful to me, and probably will be helpful to other members of this committee as we try to address a problem that we see is not wholly the fault of the dollar differential with other currencies, but that has other aspects. And a lot of the other aspects have been brought out here this morning. And I thank you for assisting in that.

Chairman **Gibbons**. I want to thank you gentlemen for coming and for staying so long, and let me say that we're probably going to have to invite you back here a little later as we learn more about this.

Yes, sir, Mr. Lenahan.

Mr. LENAHAN. Mr. Chairman, before we close I wonder if I could mention two things?

Chairman GIBBONS. Go right ahead.

Mr. LENAHAN. I'm sorry Congressman Schulze isn't here. He had asked about nontariff barriers in the EC. The EC does have a double-processing rule that makes it difficult for our American textile manufacturers to ship fabric into the EC for further processing into garments. Our Government has discussed that with the EC.

Chairman GIBBONS. Double processing?

Mr. LENAHAN. Double processing, that's right. It in effect means that any material must be processed twice to obtain origin. Therefore, for example, as I understand it, you cannot ship fabric to Italy to be made into garments to ship to France because that's only a one process stage, with the fabric to the garment.

In any case——

Chairman GIBBONS. What do you do to the fabric after you get it to Italy? Do you have to wash it or something?

Mr. LENAHAN. Well, under that rule, as I understand it, you would have to ship yarn to Italy to be woven into fabric. The fabric would then have to be made into the garment, and then origin would be conferred.

Chairman GIBBONS. I guess the Europeans would say that's not a tariff barrier, or not a barrier?

Mr. LENAHAN. Well, we've had discussions as to whether it is or not, and there's no agreement there.

Chairman GIBBONS. How long have they had that little rule?

Mr. LENAHAN. I believe that rule went into effect in 1965, but I could correct that for the record if I'm wrong.

Mr. CRANE. Would you yield for a second?

Chairman GIBBONS. Sure.

Mr. CRANE. You mean to tell me that if an American suit manufacturer wanted to export suits to Europe, that that would be foreclosed? I mean, finished suits?

Mr. LENAHAN. No, sir; what I'm talking about is the shipment, for example, of fabric to a country in the EC for processing into a garment to be shipped to another country within the EC area.

Mr. CRANE. This is only, then, with unfinished products that they have that double-processing rule?

Mr. LENAHAN. EC to EFTA would be for goods being shipped from the EC to EFTA; they must undergo this double processing.

Mr. CRANE. I see. Thank you.

Chairman GIBBONS. Not EC to EC, but EC to EFTA?

Mr. LENAHAN. EC to EFTA countries. That's one point that I wanted corrected for the record, and we can provide more information on that system if you are interested.

The other is that on page 11 of my testimony, I note that the administration has sent to the Congress a bill to authorize the quarterly mandatory reporting to the census of apparel production. This is a bill to improve our ability to obtain more quickly statistics that we require to administer our program. It is a bill that is supported both by the domestic industry and by the import and retail community. I would hope that members of this subcommittee and, indeed, the committee could support that bill.

Chairman GIBBONS. I am not aware of it. Is it in this committee?

Mr. LENAHAN. No, sir. In the House, it has been referred to the Post Office and Civil Service Committee and to the Census Subcommittee thereof. [Laughter.]

Chairman GIBBONS. God, that's—you learn something every day. I'm not sure it helps you, but you learn something. [Laughter.]

Well, I want to thank you all for coming, and for being so patient, and being so responsive, and for restraining yourselves, even though we may have kind of baited the witness a little. You understand that that's a way for us to work off some of our frustration. I thank you very much for coming.

[The following was subsequently received:]

U.S. DEPARTMENT OF COMMERCE,
INTERNATIONAL TRADE ADMINISTRATION,
Washington, DC.

Hon. SAM M. GIBBONS,
Chairman, Subcommittee on Trade, Committee on Ways and Means,
Washington, DC.

DEAR MR. CHAIRMAN: Enclosed with this letter is information requested by you or other members during the April 3 hearings of your Subcommittee on Trade.

Enclosure I is a table that responds to Congressman Schulze's request for information on growth in the world market for textile products. The table demonstrates that for the period for which the most recent data is available, 1975–1982, world fiber consumption grew 16 percent, a compound annual rate of 2.2 percent. Estimated world growth between 1975 and 1984 is 31 percent, a compound annual rate of 3.0 percent.

Enclosure II is the statement prepared by the Department's Office of Textiles and Apparel for CITA on the cotton sheet market situation. This information was requested by Congressman Frenzel. In summary, the import market share for non-institutional cotton sheets rose from 20 percent in 1983 to 60 percent during January-September 1984 while production fell 26 percent. We have supplied additional information on domestic flannel sheet production directly to Congressman Frenzel.

Enclosure III provides a table on European Community textile product imports. Unfortunately, the EC will not have its 1984 import statistics until later this year. Therefore, we have provided the latest data available which is for the years 1976 to 1983. Average annual imports into the EC during this period were 8 percent. We have received informal advice from EC officials that imports into the EC in 1984 grew by 10 percent.

In my testimony (see page 84), I advised that the State Department had declined to make 15 calls (requests to foreign governments to negotiate new quotas). On review we have determined that the State Department had decline to make "calls" in 19 instances.

The only up-to-date study we know of which addresses the strategic needs of the defense establishment for textiles and apparel, and the ability of the domestic industry to respond to these requirements is a two-volume Study of the Capability of the United States Textile and Apparel Industries to Support National Defense prepared by Kurt Salmon Associates, Incorporated for the U.S. Army Natick Research and Development Center. Copies of the study are enclosed. [The study has been retained in the committee files.]

The report concludes that sufficient industry capacity exists to meet the mobilization requirements of three scenarios covered by the study, but that there are potential bottlenecks in several product areas. The report also makes recommendations for improvements in the planning and research and development aspects of the national defense procurement system for textiles and clothing.

I hope this material will answer your questions. If I can be of further assistance to you and the Subcommittee, please let me know.

Sincerely,

WALTER C. LENAHAN,
Deputy Assistant Secretary for Textiles and Apparel.

Enclosures.

[Enclosure I]

WORLD FIBER CONSUMPTION 1975–84

[1,000 metric tons]

Year	United States	European Community*	Other	World
1975	4,091.30	2,922.51	16,441.15	23,454.96
1976	4,564.10	3,342.19	17,270.45	25,176.74
1977	4,777.90	2,995.27	17,848.41	25,621.58
1978	4,816.60	3,062.39	18,685.26	26,564.25
1979	4,883.95	3,283.31	19,328.42	27,495.68
1980	4,502.74	2,915.41	20,078.96	27,497.11
1981	4,387.63	2,838.63	20,572.19	27,798.45
1982	3,708.37	2,682.16	20,927.29	27,317.82
1983 [1]	3,780.00	2,800.00	22,420.00	29,000.00
1984 [1]	3,930.00	3,000.00	23,820.00	30,750.00
1984 Capacity [1] [2]	4,680.00	3,850.00	29,050.00	37,580.00

*Comprised of Great Britain, Greece, Ireland, France, Italy, West Germany and the Benelux Countries.

[1] Estimated.

[2] 1984 capacity utilzation estimates: U.S. 84%; E.C. 78%; other 82%; world 82%.

Source: Taken from "Cotton: World Statistics" Quarterly Bulletin of the International Cotton Advisory Committee, October 1984 through 1982. 1983 and 1984 are estimated.

[World fiber consumption 1975–84, 1975=100]

Year	United States	European Community*	Other	World
1975	100.00	100.00	100.00	100.00
1976	111.56	114.36	105.04	107.34
1977	116.78	102.49	108.56	109.24
1978	117.73	104.79	113.65	113.26
1979	119.37	112.35	117.56	117.23
1980	110.06	99.76	122.13	117.23
1981	107.24	97.13	125.13	118.52
1982	90.64	91.78	127.29	116.47
1983 [1]	92.39	95.81	136.37	123.64
1984 [2]	96.06	102.65	144.88	131.10

*Comprised of Great Britain, Greece, Ireland, France, Italy, West Germany and the Benelux Countries.

[1] Estimated.

[2] 1984 capacity utilzation estimates: U.S. 84%; E.C. 78%; other 82%; world 82%.

Source: Taken from "Cotton: World Statistics" Quarterly Bulletin of the International Cotton Advisory Committee, October 1984 through 1982. 1983 and 1984 are estimated.

[Enclosure II]

SUMMARY AND CONCLUSIONS

United States imports of Category 361 from Portugal are non-institutional type sheets. Imports from Portugal during 1984 were 2.98 million sheets (248,000 dozen), up 27.5 percent from the 1983 imports of 1.31 million sheets (109,000 dozen). This was substantial growth and can be expected to accelerate if not subject to restraints.

The market for Category 361 non-institutional sheets has been disrupted by imports; imports from Portugal, the largest supplier, have contributed to the disruption; and, removal of restraints on imports from Portugal would intensify the market disruption.

U.S. PRODUCTION

Production of non-institutional cotton sheets in the United States increased from 990,000 dozen in 1979 to 1,279,000 dozen in 1980. Production trended downward after 1980, declining to 1,014,000 dozen sheets in 1983. Production for the first three quarters of 1984 were 567,000 dozen sheets, down 26.3 percent from the same period in

1983. Production by quarters in 1984 trended downward pointing toward a more substantial decline in 1984 than is indicated by the decrease registered during the first three quarters.

U.S. IMPORTS

U.S. imports of non-institutional cotton sheets increased from 22,000 dozen in 1979 to 248,000 dozen in 1983. Imports in 1984 were up 150 percent to 622,000 dozen. Imports during the last quarter of 1985 were 247,000 dozen sheets, almost equal to the total 1983 imports.

IMPORT PENETRATION

The ratio of imports to domestic production increased sharply, up ten-fold, from 2.2 percent in 1979 to 24.5 percent in 1983. The ratio for the first three quarters of 1984 was 66.1 percent, 263 percent above the same period in 1983. The very sharp spurt in imports during the last quarter of 1984 probably resulted in an import ratio between 80 and 85 percent for the full year of 1984.

DOMESTIC PRODUCERS MARKET SHARE

The U.S. market for domestically produced and imported non-institutional cotton sheets, after increasing in 1980, was remarkably stable through 1984. The U.S. producers share of the market was also stable through 1981, but began to decline an increasing rate thereafter. The domestic producers share for 1981 was 95 percent; it dropped to 89 percent in 1982; to 80 percent in 1983; and to 60 percent during the first three quarters of 1984. The full year share in 1984 will be even smaller due to the surge in imports during the last quarter.

IMPORT VALUES VS U.S. PRODUCERS PRICE

Approximately 51 percent of the cotton sheets imported from Portugal are combed sheets entered TSUSA no. 363.3030. The remainder are carded sheets entering under TSUSA No. 363.3010. Imports are mostly flannel sheets which are landed at a duty-paid value below the U.S. producers price for comparable sheets.

U.S. IMPORTS OF NONINSTITUTIONAL COTTON SHEETS FROM PORTUGAL AND WORLD

[1,000 Dozen]

Year	Portugal	Other	Total
1979	2	20	22
1980	2	32	34
1981	14	43	57
1982	45	86	131
1983	109	139	248
1984	248	374	622

Note.—Less than 1,000 dozen.

Category 361: Duty-paid values and U.S. producer price

[U.S. dollars per sheet]

TSUSA No. and source	*Value/Price*
363.3010:	
Portugal	**$5.80**
Taiwan	**5.17**
U.S. producer's price	**8.00**
363.3030:	
Portugal	**$5.96**
Hong Kong	**5.21**
U.S. producer's price	**10.00**

U.S. PRODUCTION, IMPORTS AND IMPORT TO PRODUCTION RATIOS; NONINSTITUTIONAL COTTON SHEETS

[1,000 Dozen]

Year	Production	Imports	Ratio
1979	990	22	2.2
1980	1,279	34	2.7
1981	1,190	57	4.8
1982	1,086	131	12.1
1983	1,014	248	24.5
1984	NA	622	NA
January to September:			
1983	769	140	18.2
1984	567	375	66.1

U.S. PRODUCTION, IMPORTS, AND MARKET; NONINSTUTIONAL COTTON SHEETS

[1,000 Dozen]

Period	Production	Imports	Market [1]	Domestic share
1979	990	22	1,012	98
1980	1,2792	34	1,313	97
1981	1,190	57	1,247	95
1982	1,086	131	1,217	89
1983	1,014	248	1,262	80
January to September:				
1983	769	140	905	85
1984	567	375	942	60

[1] Market for domestically produced and imported items.

[Enclosure III]

EUROPEAN COMMUNITY TEXTILE AND APPAREL IMPORTS, 1976–83

[Dollar amount in thousands]

Year	Textile imports	Percent change	Apparel imports	Percent change	Total textile apparel imports	Percent change
1976	$12,320.8	15.3	$9,808.3	16.8	$22,129.1	16.0
1977	13,796.4	12.0	11,174.8	13.9	24,971.2	12.8
1978	17,933.5	23.5	13,716.6	22.7	30,750.1	23.1
1979	21,623.1	26.9	17,764.3	29.5	39,387.4	28.1
1980	22,946.0	6.1	20,324.7	14.4	43,270.7	9.9
1981	19,080.8	−16.8	17,985.6	−11.5	37,066.4	−14.3
1982	18,287.8	−4.2	17,039.0	−5.3	35,326.8	−4.7
1983	18,062.6	−1.2	16,389.8	−3.8	34,452.4	−2.5
1976–83 average		7.3		9.4		8.2

Source: U.N. Trade Data System, October 10, 1984.

Chairman GIBBONS. While the next witnesses are coming forward, let me make some administrative announcements for those of you who are in the audience.

Because of the long witness list today, I plan to go straight through the lunch hour. I would announce for those of you who are not familiar with this building, there are restrooms right outside the door, and there's a delightful place to eat downstairs that we sometimes refer to as the Bay of Pigs. [Laughter.]

If any of the witnesses happen to want to go to either one of those places and are afraid you may be called while you are out, just let the staff know and we'll await your return.

Our next panel of witnesses are from Goldman, Sachs & Co., Mr. Jay Meltzer, who is vice president for the research department, and from the Institute for International Economics, Mr. Gary Hufbauer, who is a senior fellow.

Did we lose one of our panel? Is Mr. Meltzer in the room? Oh, that's all right, Mr. Meltzer, we're not in any big hurry.

All right. Now, I just would caution you to crawl into those microphones. They're terrible. I've been apologizing for them for about 20 years, and maybe we can get some new ones some day.

Mr. Meltzer, go ahead. And I would ask those in the room to please lower their voices.

STATEMENT OF JAY MELTZER, VICE PRESIDENT, RESEARCH DEPARTMENT, GOLDMAN, SACHS & CO.

Mr. **Meltzer**. Thank you, Congressman Gibbons.

My name is Jay Meltzer. I'm from Goldman, Sachs; I'm a vice president there in the research department. Basically, I follow the soft goods industry, particularly the public companies. I try to pick stocks that go up before they go up, and stocks that are going to go down, before they go down. That's how I'm paid. I'm not a professional lobbyist.

Chairman **Gibbons**. I've tried that too, and I hope you've been a lot more successful than I've been.

Mr. **Meltzer**. I hope so.

I've been doing that for 25 years, following the soft goods industry and writing about it, and before that for 11 years I was in the soft goods industry, in a family business.

I'm not a member of any textile or apparel trade group. I really think I'm an impartial observer of the industry, and my remarks are made in that context.

I have submitted for the record something I wrote for our clients, dated April 2, and it encompasses my thoughts about what's going on in the industry at this time.

Chairman **Gibbons**. Good. Without objection, we'll put that entire statement in the record.

Mr. **Meltzer**. Thank you, Congressman.

When I started in 1960 as a textile and apparel analyst, there were about 29,000 apparel companies. There are less than half of them in existence today. In these 25 years there's been a severe attrition, as well as a consolidation. There's no question that textiles and apparel are a mature and shrinking industry, and part of the problem has been imports.

Today, textiles are a 13-billion-pound market in the United States alone. Just for clarification, about 45 to 50 percent of that goes to the apparel industry; another 35 percent to the home furnishings industry, in round numbers; and the balance, or 15 to 20 percent, to industrial markets. Each has its own rhythms, and each has to be approached in a different manner. If we take the top four textile companies and look at their volume and operating profits last year, and split that into what went to the apparel industry and what went every place else, we see a massive difference. Operating profits in 1984 for the big four—that's Burlington, Stevens, West Point, and Springs, who break out their sales and profits—operating profits for their home furnishings and nontextile products went up 21 percent, but for products sold to the apparel industry, operating profits declined 36 percent, for a net decline of 5 percent in total operating profits.

We analysts like to use Burlington as a microcosm of the industry, and I have submitted for the record Burlington's record of return on capital, return on sales, capital investment, and what have you, since 1972. It is a sorry record.

Chairman GIBBONS. It is a what kind of record? I'm sorry, I missed that.

Mr. MELTZER. Sorry.

Chairman GIBBONS. A sorry record.

Mr. MELTZER. My recollection is that Burlington's return on equity in those 13 years exceeded 10 percent only three times, and then it was just slightly in excess of 10 percent. The rest of the time it was single-digit. This is in contrast to American industry, which averaged 14 to 15 percent in those 13 years.

Now, the industry is helping itself. It is helping itself by moving more of its assets into home furnishings and into the industrial area, areas that have been less impacted by imports. But in the apparel area, it's having a great deal of difficulty. That market is shrinking, and the industry, in spite of its attempts to automate, to be more flexible, and to emphasize service, can do just so much. In fact, in the latest quarter we have, it seems to me that most—and certainly the big three who break out their results—most of the industry was under water.

I would suggest to the industry and to this panel that they continue to automate, emphasize flexibility, service, specialties, and niches, that they expand an avenue that you've made available to them called 807, and that they get some help on imports. Otherwise, the industry will continue to liquidate, to the great detriment of this country. I think the industry has the will and the management to make an important contribution to the U.S. industrial scene in the future, and with your help, it will continue to do so.

[Mr. Meltzer submitted the following:]

Investment Research

Goldman Sachs

April 2, 1985

TEXTILE AND APPAREL OUTLOOK

- Some favorable signs appearing.
- Recovery limited by imports and a shrinking market.
- Would not chase the stocks, unless more constructive news develops on imports.
- Quarterly rankings included.

Overview

The textile/apparel climate continues unfavorable, reflecting the continued pressures of excess inventories; however, some favorable signs are appearing. U.S. jeanswear products, for which excesses were first apparent, are now in a better supply-demand balance, and Levi Strauss, the largest producer, has temporarily placed some of its styles on allocation. Also, as expected, Levi reported a favorable first (February) fiscal quarter of 37¢ versus 26¢ a year earlier. Although the upturn in textiles is slight, each month has improved from the previous month since the December 1984 trough. Finally, legislation designed to strengthen import quotas was introduced in Congress on March 19.

On balance, we now look for 1985 combined profits of the eight leading American textile companies to drop about 15%-20%, while results for the 12 leading apparel producers (excluding the resurging Levi Strauss) should be flat; both groups will underperform the economy. We continue to believe the first half will be generally unfavorable, followed by improvement thereafter. The textile industry's earning power in this cycle is not likely to surpass the previous peak (mid-1983 to mid-1984), reflecting the inroads of imports and a shrinking market.

This material is for your private information, and we are not soliciting any action based upon it. Opinions expressed are our present opinions only. The material is based upon information which we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. We may from time to time have a long or short position in, and buy or sell, securities mentioned.

Table 1

Domestic Consumption of Fiber and Products 1973-1984E (a)

(millions of pounds)

Year	Man-Made Fiber(b)	Cotton	Wool	Total	U.S. Population (millions)	U.S. Per Capita Consumption
1973	8.32	3.88	0.21	12.42	211.9	58.6
1974	7.20	3.42	0.15	10.77	213.9	50.4
1975	7.08	3.22	0.16	10.46	216.0	48.4
1976	7.64	3.68	0.20	11.52	218.0	52.8
1977	8.40	3.47	0.21	12.08	220.2	54.8
1978	8.70	3.53	0.22	12.45	222.6	55.9
1979	8.63	3.33	0.20	12.16	225.1	54.0
1980	7.83	3.35	0.20	11.38	227.7	50.0
1981	7.86	3.33	0.23	11.42	230.0	49.7
1982	7.03	3.12	0.22	10.38	232.3	44.7
1983	8.58	3.70	0.27	12.55	234.5	53.6
1984E	8.75	3.80	0.25	12.80	236.6	54.0

(a)Mill consumption, plus imports less exports of semimanufactured and manufactured products.

(b)Includes all noncellulosics, cellulosics, and textile glass fiber.

Sources: *Textile Organon*, May 1984 and our estimates.

On the constructive side, the cycle seems to have bottomed. To date, all major textile companies have paid their regular dividends. For the most part, cash flows remain positive, with capital spending programs scaled back significantly. Two leveraged buyouts (LBOs) of major apparel producers (Palm Beach and Phillips-Van Heusen) are still being considered, and most of the large textile weavers' stocks are still well below their stated book value. We would maintain holdings, but would not chase the stocks unless more constructive news develops on the import front.

The Textile Outlook: Not Quite Drowning

The United States represents a huge market for textiles, home furnishings, and apparel. In 1984, U.S. consumers (236 million people) used nearly 13 billion pounds of fiber (about 54 pounds per person), one of the highest if not the highest per-capita consumptions in the world (see Table 1). For the sake of comparison, the People's Republic of China's per-capita consumption was less than one pound in 1984.

Unfortunately, the U.S. fiber and fabric industry has had an extremely difficult time in the past decade. On the demand side, most markets are mature. U.S. per-capita fiber consumption peaked in 1973 at around 59 pounds per person and has been declining unevenly since then. To make matters worse, imports have made steady inroads into U.S. markets. Thus, the remaining pie available to our domestic producers is smaller than it was in 1973. In the face of a shrinking pie and intense competition, the U.S. fiber and fabric industry has modernized, reduced costs, closed marginal plants, and sought higher value-added product areas, but the average return on capital remains poor and survival is not assured.

Combined sales of our four leading textile companies rose 8.2% in 1984 to about $7.6 billion, a reasonably good though not exciting performance (see Table 2); however, the same companies' apparel fabric sales rose only 1.6%, to $3.4 billion, and their share of total sales continued to erode to only 44.7% from 47.6% a year earlier. In contrast, non-apparel fabric sales climbed 14.2% in 1984 to around $4.2 billion (55.3% of the total), up from 52.4% a year earlier. Unfortunately, it is usually impossible to convert apparel fabric machines over to another category (i.e., home furnishings or industrial use), so the apparel fabric machines are often shut down and written off when their markets evaporate, and employees are laid off accordingly.

The industry's problems are even more apparent after examining 1984 operating income for the four big weavers. Total operating income declined about 5%, a weak but not catastrophic performance; however, after dividing the operating income into textile fabrics and other earnings, it is apparent that all four producers enjoyed double-digit increases in non-apparel fabric earnings, which rose 21.3%. In contrast, their apparel fabric operating income dropped 35.8%, with only J.P. Stevens progressing (from a formerly very depressed base). Non-apparel fabric operating margins rose to

Table 2

Four Leading Textile Companies' Sales and Earnings, 1983-1984

(millions)

		Apparel Fabrics			Other			Total		
			1984			1984			1984	
	Fiscal Year	1983	Amount	% Incr.	1983	Amount	% Incr.	1983	Amount	% Incr.
Sales										
Burlington Ind.	9	$1,795.8	$1,761.4	1.9%	$1,194.6	$1,407.4	17.8%	$2,990.4	$3,168.8	6.0%
Springs		476.6	484.4	1.6	417.8	460.6	10.2	894.4	945.0	5.7
J.P. Stevens	10	704.5	773.7	9.8	1,221.6	1,370.5	12.2	1,926.1	2,144.2	11.3
West Point-Pepperell	8	362.9	372.9	2.8	843.4	960.3	13.9	1,206.3	1,333.2	10.5
Total		$3,339.8	$3,392.4	1.6	$3,677.4	$4,198.8	14.2	$7,017.2	$7,591.2	8.2
Operating income										
Burlington Ind.		$129.2	$74.4	(42.4)	$71.1	$83.4	17.3	$200.3	$157.8	(21.2)%
Springs		41.8	19.3	(53.8)	22.8	43.3	89.9	64.6	62.6	(3.1)
J.P. Stevens		9.9	15.8	59.6	71.1	80.9	13.8	81.0	96.7	19.4
West Point-Pepperell		21.9	20.7	(5.5)	74.8	83.2	11.2	96.7	103.9	7.4
Total		$202.8	$130.2	(35.8)	$239.8	$290.8	21.3	$442.6	$421.0	(4.9)
Unallocated expense										
Burlington Ind.								$27.7	$27.9	
Springs								8.8	9.4	
J.P. Stevens								30.1	26.8	
West Point-Pepperell								—	—	
Total								$66.6	$64.1	
Interest & other expense/(income)										
Burlington Ind.								$29.5	$33.2	
Springs								(1.2)	(1.9)	
J.P. Stevens								28.9	42.9	
West Point-Pepperell								10.4	11.2	
Total								$67.6	$85.4	
Pretax income										
Burlington Ind.								$143.1	$96.7	(32.4)%
Springs								57.0	55.1	(3.3)
J.P. Stevens								22.0	27.1	23.2
West Point-Pepperell								86.3	92.7	7.4
Total								$308.4	$271.6	(11.9)
Taxes										
Burlington Ind.								$54.6	$34.3	
Springs								20.0	19.1	
J.P. Stevens								3.1	5.1	
West Point-Pepperell								34.0	37.0	
Total								$111.7	$95.5	
Net Income										
Burlington Ind.								$88.5	$62.4	(29.5)%
Springs								37.1	36.1	(2.7)
J.P. Stevens								18.9	22.0	16.4
West Point-Pepperell								52.3	55.7	6.5
Total								$196.8	$176.2	(10.5)

6.9% in 1984 from 6.5% in 1983, while the apparel margin collapsed to 3.8% from 6.1%, an unusually poor return considering it is pretax, pre-interest, and pre-unallocated overhead.

Unfortunately, we do not receive these numbers quarterly (usually only once a year); however, thus far in 1985, conditions have apparently deteriorated in both categories. Combined latest-quarter sales for the three largest textile producers we follow (Burlington, J.P. Stevens, and West Point-Pepperell) declined 15.5% and earnings virtually disappeared, with all three producers at around a breakeven on an operating basis (see Table 4). We believe that in all cases, apparel fabrics were in the red, offset by moderate profits elsewhere.

The historical picture is not much better. For example, Burlington has been able to garner a double-digit return only three times since 1972. And in those years, it was a low double-digit return at that. In 1984, Burlington's return was only 5.2%, and it will probably be even worse this year (see Table 5). This compares with the 14%-16% range achieved by the U.S. industry for most of the 1970s and 1980s. Interestingly, in the past decade (1974-1984), Burlington's sales have risen 36%, or at an average compound rate of about 3%. In contrast, its sales to the apparel market in this period have risen only 19.3%, or 1.8% compounded. These sales accounted for 63.4% of 1974 volume but only 55.6% of 1984's.

Rising imports, while not the sole problem, is a major reason for the textile industry's troubles. Much has been said concerning the inroads imports have made into the apparel market; import penetration in 1984 approximated 43%, roughly double that of a few years ago. Total textile import penetration is also an increasing problem (see Table 6), indicating that total imported poundage has more than doubled in the past five years, accounting for over 22% of our total textile shipments currently, about double the percentage five years earlier. U.S. shipments of noncellulosic fibers to our domestic market have closely parallelled textile and apparel shipments (see Table 7).

To its credit, the textile industry continues to pursue many constructive paths, including (1) automation, which continues to increase productivity; (2) #807, for which Dan River and West Point have taken the plunge; (3) increased flexibility (a new industry buzzword); (4) entry into high value-added, specialty niche areas (Collins & Aikman and Guilford Mills are leading the way); and protectionism, with import quota legislation introduced. In sum, the textile industry is mature and vulnerable. However, it seems far too early to count it out.

Rankings

Several points are apparent in this quarter's textile and apparel stock rankings. First, the industry will likely underperform the economy in 1985, with selected textile producers' profits falling 15%-20% and apparel profits (excluding the resurgent Levi Strauss) remaining flat (see Table 8). In contrast, textile stocks have held their own in the stock market,

Table 3

Four Leading Textile Companies' Composition of Sales and Earnings, 1983-1984

(% of sales)

	Fiscal Year	Apparel Fabrics		Other		Total	
		1983	1984	1983	1984	1983	1984
Operating margin							
Burlington Ind.	9	7.2%	4.2%	6.0%	5.9%	6.7%	5.0%
Springs		8.8	4.0	5.5	9.4	7.2	6.6
J.P. Stevens	10	1.4	2.0	5.8	5.9	4.2	4.5
West Point-Pepperell	8	6.0	5.6	8.9	8.7	8.0	7.8
Total		6.1	3.8	6.5	6.9	6.3	5.5
Pretax margin							
Burlington Ind.						4.8%	3.1%
Springs						6.4	5.8
J.P. Stevens						1.1	1.3
West Point-Pepperell						7.2	7.0
Total						4.4	3.6
Tax rate							
Burlington Ind.						38.2%	35.5%
Springs						35.0	34.6
J.P. Stevens						14.1	18.8
West Point-Pepperell						39.4	38.9
Total						36.2	35.2
Net margin							
Burlington Ind.						3.0%	2.0%
Springs						4.1	3.8
J.P. Stevens						1.0	1.0
West Point-Pepperell						4.3	4.2
Total						2.8	2.3

and apparels have basically outperformed (Tables 9 and 10). Thus, price-earnings (P/E) multiples are higher than the market's and the discount has evaporated. The stocks seem to be looking beyond 1985 to recovery in 1986. We recommend a cautious approach and continue to suggest average weightings for textile and apparel stocks.

Our current estimates and ratios are in Table 11. We would not be swept away by this quarter's rankings (see Table 12). Leaders in several categories are not followed closely; therefore, the estimates are suspect. Also, stock fluctuations on LBO rumors have distorted ratios. Further, many of the stocks seem to be looking into 1986, and do not have realistic estimates for that year as yet.

P/E ratios on 1985 estimates (Table 13): Collins & Aikman remains one of the top four, but this year's profits may well be its near-term peak earnings. Phillips-Van Heusen is now in a position where its favorable P/E should provide some support.

Yield (Table 14): None of the current high textile dividend yields are being covered. Even though the industry is coming off the bottom, dividend maintenance is not assured.

Market-to-book ratios (Table15): As ever, the winners here generally have the poorest ROEs. Salant filed for Chapter 11 on February 22.

ROEs (Table 16): Of course, ROEs are overstated since they are derived by dividing estimated 1985 earnings by current equity, which of course is lower than this year's average equity. Nevertheless, the leaders (the same four as in the previous two quarters) should be commended. On average, apparels continue to show above-average returns, about double those of their textile suppliers.

Best Ranking (Tables 17 and 18): See our Table 12 comments above. Hartmarx is the only company among the top four that we follow closely and therefore have reasonable confidence in our earnings estimate.

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Table 4

Three Textile Companies' Latest-Quarter Sales and Operating Income, 1984-1985

(millions)

	Burlington Industries			J.P. Stevens			West Point-Pepperell			Total		
		12/84			2/85			2/85			Latest Q	
	12/83	Amount	% Incr.	1/84	Amount	% Incr.	2/84	Amount	% Incr.	Year ago Q	Amount	% Incr.
Net sales	$771.8	$653.0	(15.4)%	$520.7	$440.5	(15.4)%	$313.5	$263.1	(16.1)%	$1,606.0	$1,356.6	(15.5)%
Cost of sales	667.5	587.7	(12.0)	460.3	394.2	(14.4)	253.0	222.9	(11.9)	1380.8	1204.8	(12.7)
Selling & admin.	53.4	54.5	2.1	46.5	39.7	(14.6)	38.9	35.9	(7.7)	138.8	130.1	(6.3)
Interest expense	12.1	13.0	7.4	8.3	8.6	3.6	2.5	3.0	20.0	22.9	24.6	7.4
Other (income)/expense	(6.7)	(7.0)	NM	0.1	(2.2)	NM	(0.2)	0.3	NM	(6.8)	(8.9)	NM
Pretax income	$45.6	$4.9	(89.3)	$5.6	$0.2	(96.4)	$19.2	$1.0	(94.8)	$70.4	$6.1	(91.3)
As % of sales												
Cost of sales	86.5%	90.0%		88.4%	89.5%		80.7%	84.7%		86.0%	88.8%	
Selling & admin.	6.9	8.3		8.9	9.0		12.4	13.6		8.6	9.6	
Interest expense	1.6	2.0		1.6	2.0		0.8	1.1		1.4	1.8	
Other (income)/expense	(0.9)	(1.1)		NM	(0.5)		NM	0.1		(0.4)	(0.7)	
Pretax	5.9%	0.8		1.1	NM		6.1	0.4		4.4	0.5	

NM - Not meaningful.

Table 5

Burlington Industries'
Key Financial Ratios, 1972-1984

(dollars in millions)

						Ratios			
Year	Net Sales	Net Earnings	Capital Outlays	Depreciation and Amortization	Employees	Net Margin	Return On Average Equity	Outlays As % of Depreciation	Sales Per Employee Avg. (thousands)
1972	$1,816.1	$ 44.0	$ 115.6	$ 86.9	84.0	2.4%	5.8%	133.0%	$ 21.9
1973	2009.8	70.4	99.3	90.2	88.0	3.5	9.0	110.1	24.4
1974	2330.0	106.5	142.5	91.1	81.0	4.6	12.7	156.4	27.6
1975	1958.1	36.6	104.3	91.9	71.0	1.9	4.2	113.5	25.8
1976	2284.6	104.5	159.7	101.6	70.0	4.6	11.4	157.2	32.4
1977	2388.2	89.9	206.0	110.8	69.0	3.8	9.2	185.9	34.4
1978	2421.2	70.3	216.0	123.5	66.0	2.9	6.9	174.9	35.9
1979	2676.3	76.2	227.2	130.5	67.0	2.8	7.3	174.1	40.2
1980	2900.6	81.3	214.7	141.7	65.0	2.8	7.5	151.5	43.9
1981	3262.9	115.3	217.5	138.1	64.0	3.5	10.1	157.5	50.6
1982	2876.2	52.5	221.8	131.3	53.0	1.8	4.5	168.9	49.2
1983	2990.4	88.5	147.1	130.9	53.0	3.0	7.5	112.4	56.4
1984	3168.8	62.4	214.7	134.9	53.0	2.0	5.2	159.2	59.8
Total (13 years)	$33,083.2	$998.4	$2,286.4	$1,503.4	NM	3.0	7.6	152.1	NM

Table 6

Total U.S. Textile & Apparel Market, 1973-1984E

(million pounds)

Year	Indic. Domestic		Imports		
	Amount	% of Total	Amount	% of Total	Total Amount
1973	11,169	89.9%	1,248	10.1%	12,417
1974	9,738	90.5	1,028	9.5	10,766
1975	9,446	90.3	1,013	9.7	10,459
1976	10,178	88.3	1,344	11.7	11,522
1977	10,676	88.4	1,402	11.6	12,078
1978	10,790	86.7	1,658	13.3	12,448
1979(a)	10,777	88.6	1,384	11.4	12,161
1980	9,919	87.1	1,465	12.9	11,384
1981	9,658	84.5	1,765	15.5	11,423
1982	8,644	83.3	1,732	16.7	10,376
1983	10,345	82.4	2,209	17.6	12,554
1984E	10,200	77.9	2,900	22.1	13,100
Compound growth	decl.		8.0%		0.5%

(a)Underscore indicates peak domestic year.

Source: ATMI data and our estimates.

Table 7

U.S. Fiber and Textile & Apparel Shipments to the Domestic Market, 1978-1984

(1978=100)

Year	Noncellulosic Fiber Index(a)	Textile and Apparel Index
1978	100.0	100.0
1979	104.2	99.9
1980	96.5	91.9
1981	93.2	89.5
1982	80.6	80.1
1983	95.3	95.9
1984	90.5	94.5E

(a)Excludes olefins.

Sources: Noncellulosic fibers, Textile Economics Bureau data;
Textile and apparel, ATMI data.

Table 8

Net Earnings Available for Common, 1981-1985E
(millions)

Company (Fiscal year)	1981	1982	1983	1984	1985E
Selected Textiles					
Burlington (9/30)	$115	$ 52	$ 88+	$ 62	$ 57
Collins & Aikman (2/28)(a)	19	23	48	63E	64
Fieldcrest	10	10	15	10(b)	8
Guilford Mills (6/30)	21	14	15	25	20
M. Lowenstein	17	15	22	31	29
Riegel Textile (9/30)	17	9	8	3(b)	3
Springs	40	37	37	33(b)	26
West Point-Pepperell (8/31)	41	43	53	56	29
Total	$280	$203	$286	$283(b)	$236
% increase		(27.5)%	40.9%	(1.0)%	(16.6)%
Selected Apparels					
Liz Claiborne	$ 10	$ 14	$ 22	$ 42	$ 53
Farah	6	10	15	16	15
Garan (9/30)	9	8	11	12	10
Hartmarx (11/30)	27	30(b)	38	42	45
Levi Strauss	172	127	194+	41	111
Manhattan (1/31)(a)	9	7	11	1	7
Oxford Mfg (5/31)	9	16	23	25	9
Palm Beach	12(b)	8	13	10	11
Phillips-Van Heusen (1/31)(a)	7	9	17	15E	17
Russ Togs (1/31)(a)	10	10	12	11	12
Salant (11/30)(b)	9	3	1	(7+)	-
VF Corp.	52	92	119	125	116
Warnaco	21	24	28	20+	24
Total	$353	$358	$504	$353	$430
Ex Levi Strauss	181	231	310	312	319
% increase		1.4%	40.8%	(30.0)%	21.8%
Ex Levi Strauss		27.6	34.0	0.6	2.2

(a)Following year.
(b)Ongoing; before nonrecurring gains or losses.

Table 9

S&P Price Indices, 1960-1985 to Date

(1941-1943 = 10)

Dec Avg.	400 Industrials	Textile Products(a)	Apparel Manufacturers(b)	As a % of the 400 Textile Products	As a % of the 400 Apparel Manufacturers
1960	60.22	24.86	29.53	41.3%	49.0%
1961	75.81	32.52	49.03	42.9	64.7
1962	65.59	31.90	42.38	48.6	64.6
1963	78.38	47.68	48.60	60.8	62.0
1964	88.71	62.98	50.38	71.0	56.8
1965	97.66	96.14	71.49	98.4	73.2
1966	86.50	60.40	57.77	69.8	66.8
1967	103.90	79.64	67.15	76.7	64.6
1968	116.00	96.73	88.59	83.4	76.4
1969	100.50	65.19	66.17	64.9	65.8
1970	98.72	75.72	55.41	76.7	56.1
1971	109.70	60.15	63.79	54.8	58.1
1972	131.10	66.77	49.97	50.9	38.1
1973	106.20	41.47	17.18	39.0	16.2
1974	74.80	30.96	10.03	41.4	13.4
1975	99.31	53.08	19.05	53.4	19.2
1976	116.30	60.33	26.32	51.9	22.6
1977	103.10	50.26	25.12	48.7	24.4
1978	107.10	45.13	28.56	42.1	26.7
1979	120.78	47.63	44.00	39.4	36.4
1980	154.45	52.55	49.51	34.0	32.1
1981	136.85	63.09	41.05	46.1	30.0
1982	156.02	87.30	63.06	56.0	40.4
1983	185.18	118.24	78.48	63.9	42.4
1984	183.62	97.89	63.76	53.3	34.7
1985(c)	199.91	102.76	77.88	51.4	39.0
Compound growth					
1960-1984	4.7%	5.9%	3.3%		
1984-1985(c)	8.9	5.0	22.1		

(a) Includes Burlington Industries, Lowenstein, Springs Industrise, J. P. Stevens, and West Point-Pepperell.

(b) Includes Cluett Peabody, Hartmarx, Levi Strauss, and VF Corp.

(c) As of March 20, 1985.

Table 10

S&P Price Indices, 1983 to date

(1941-43=10)

	400 Industrials	Textile Products	Apparel Mfrs.	As % of the 400 Textile Products	As % of the 400 Apparel Mfrs.
Dec. 28, 1983	186.85	116.33	78.32	62.3	41.9
Jan. 25, 1984	185.88	114.96	67.80	61.8	36.5
Feb. 29, 1984	177.77	102.83	65.99	58.0	37.2
Mar. 28, 1984	180.90	101.60	68.74	56.2	38.0
Apr. 25, 1984	180.01	98.88	67.52	54.9	37.5
May 30, 1984	170.86	96.40	59.84	56.4	35.0
Jun. 27, 1984	172.72	101.33	62.57	58.7	36.2
Jul. 25, 1984	168.88	92.32	61.01	54.7	36.1
Aug. 29, 1984	190.01	96.71	63.71	50.9	33.5
Sept.26, 1984	187.78	92.70	64.05	49.4	34.1
Oct. 31, 1984	186.72	94.85	63.59	50.8	34.1
Nov. 28, 1984	184.67	96.26	63.14	52.1	34.2
Dec. 26, 1984	185.84	99.10	64.46	53.3	34.7
Jan. 30, 1985	200.75	106.16	75.86	52.9	37.8
Feb. 27, 1985	201.97	106.72	79.53	52.8	39.4
Mar. 20, 1985	199.91	102.76	77.88	51.4	39.0

Table 11

Financial and Market Data for Selected Textile and Apparel Companies

Company (Fiscal year)(a)	Avg. Shares Outst. (mil.)	Market Price (3/19/85)	Latest Book Value Per Share	52-Week Price Range	Earnings Per Share(a) 1983	1984	1985E	P/E Ratio on 1985E	Indicated Dividend	Yield	Market Value (millions)	Latest Book Value (millions)	Market to Book	Estimated Earnings 1985 (millions)	Estimated ROE(b)
*Burlington (9/30)	28.3	26 3/8	$41.39	30 - 23	$3.10	$2.18	$2.00↓	13.2X	$1.64	6.2%	$ 732	$1,170.3	64%	$ 57	4.8%
*Collins & Aikman (2/28)	21.6	23 1/8	13.02	26 - 13	2.26	2.90E	2.95	7.8	0.64	2.8	500	280.2	178	64	22.8
Fieldcrest	3.9	30 7/8	44.34	37 - 25	3.76	1.07	2.00↓	15.4	2.00	6.5	120	172.1	70	8	4.6
*Guilford Mills (6/30)	7.9	25 1/2	18.13	28 - 20	2.11	3.26	2.50	9.8	0.48	2.8	196	142.6	136	20	14.0
M. Lowenstein	4.2	46	47.48	50 - 36	5.30	7.32	7.00↓	6.6	2.00	4.3	193	198.0	97	29	14.6
Riegel Textile (9/30)(c)	3.8	18 5/8	33.11	35 - 17	2.65	0.86(c)	0.75	24.8	1.80	9.7	71	126.6	57	3	2.4
*Springs Industries	8.8	33	50.07	38 - 30	4.15	3.76(c)	3.00↓	11.0	1.52	4.6	290	441.4	66	26	5.9
*J. P. Stevens (10/31)	17.5	16 3/4	31.21	22 - 15	1.09	1.23	NA	NA	1.20	7.2	293	546.9	54	NA	NA
*West Point-Pepperell (8/31)	10.3	37 1/8	44.40	47 - 34	5.01#	5.30#	2.80#↓	13.3	2.20	5.9	382	457.3	84	29	6.3
Total								10.6(e)			$2,795	$3,541.4	79	$236(e)	7.9(e)
*Liz Claiborne	21.2	33 1/8	$ 4.90E	38 - 16	$1.67	$1.98	$2.50↓	13.3	$0.25	0.8%	$ 702	$ 104.0E	675%	$ 53	51.0%
*Cluett, Peabody	9.49	28 3/8	27.66	32 - 23	2.96(c)	2.85	NA	NA	1.00	3.5	267	263.8	109	NA	NA
Farah (10/31)	5.8	19 3/4	11.05	20 - 16	2.26	2.51	2.70↓	7.3	0.88	4.5	115	64.3	179	16	24.9
*Garan (9/30)	3.3	29 3/4	22.18	33 - 24	3.32	3.63	3.00↓	9.9	1.20	4.0	98	72.7	135	10	13.8
*Hartmarx (11/30)	12.5	32 1/8	24.15	34 - 23	3.08	3.36	3.65	8.8	1.28	4.0	402	301.9	133	46	15.2
Kellwood (4/30)	2.9	32 5/8	31.30	35 - 22	4.03	NA	NA	NA	1.20	3.7	95	90.9	105	NA	NA
*Levi Strauss (11/30)	35.8	31 5/8	21.51	37 - 25	4.61	1.07	3.00	10.5	1.85	5.8	1,167	784.4	147	111	14.0
*Manhattan (1/31)	4.6	13 5/8	18.96	24 - 12	2.60#	0.22#	1.50#↓	9.1	0.30	2.2	63	87.9	72	7	8.0
*Oxford(5/31)	11.1	12 5/8	11.36	17 - 10	1.96	2.17	0.75↓	16.8	0.44	3.5	140	126.6	112	9	7.2
*Palm Beach	3.7	37 3/4	27.08	39 - 26	3.60	2.71	3.00↓	12.6	1.20	3.2	140	100.4	139	11	11.0
*Phillips-Van Heusen (1/31)	6.1	23	22.20	29 - 16	2.94	2.40E	2.75↓	8.4	0.40	1.7	140	135.6	103	17	12.5
Russell Corp.	19.9	15 7/8	9.83	17 - 11	1.35	1.40E	1.46↓	10.9	0.30	1.9	316	195.9	161	29	14.8
Russ Togs (1/31)	5.1	17 1/4	15.39	20 - 15	2.29	2.09	2.30↓	7.5	0.76	4.4	88	78.8	112	12	15.2
*Salant (11/30)	3.3	4 5/8	8.00E	11 - 3	0.35	(6.03)	0.00↓	-	NIL	NIL	15	26.5E	57	—	—
*VF Corp.	30.9	31 3/4	14.28	34 - 21	3.64	3.92	3.75↓	8.5	1.12	3.5	981	441.4	222	116	26.3
*Warnaco	10.1	22	17.29	29 - 17	2.79#	2.02#	2.40#↓	9.2	0.88	4.0	222	174.8	127	24	13.7
Total								10.0(d)			$4,951	$3,039.9	163	$461(d)	17.1(d)

*Closely-followed companies.
#Fully diluted.

(a)For companies with fiscal years ending January through May, earnings are shown under preceding calendar year.
(b)Estimated 1985 earnings divided by latest book value.
(c)Before writeoffs or nonrecurring gains. Ongoing.
(d)Excludes Cluett Peabody and Kellwood.
(e)Excludes J. P. Stevens.

E - Estimated.
NA - Because a partner of Goldman, Sachs & Co. is on the board of directors of this company, the firm, as a matter of policy, excludes estimates of future earnings or any related data in securities research reports.

↑↓Direction of change since Quarterly Update of December 26, 1984.

Table 12

Best Rankings of Textile/Apparel Stocks

Criterion	Company	Value	Rank
P/E on 1985 est.	M. Lowenstein	6.6X	1
	Farah Manufacturing	7.3	2
	Collins & Aikman	7.8	3
	Phillips-Van Heusen	8.4	4
Current yield	Riegel Textile	9.7%	1
	J.P. Stevens	7.2	2
	Fieldcrest Mills	6.5	3
	Burlington Industries	6.2	4
Market-to-book value	J.P. Stevens	54%	1
	Salant	57	2
	Riegel Textile	57	2
	Burlington Industries	64	4
Est. future ROE	Liz Claiborne	51.0%	1
	VF Corp.	26.3	2
	Farah Manufacturing	24.9	3
	Collins & Aikman	22.8	4
Best overall score	M. Lowenstein	6.75	1
	Farah Manufacturing	9.00	2
	Hartmarx	9.50	3
	Russ Togs	10.25	4

Table 13

Rank of Price-Earnings Multiples for Selected Textile and Apparel Companies(a)

Rank													P/E Ratio	
Mar 31, 1982	May 28, 1982	Aug 20, 1982	Nov 22, 1982	Apr 6, 1983	Jul 8, 1983	Nov 2, 1983	Feb 22, 1984	May 25, 1984	Sept 14, 1984	Dec 14, 1984	Mar 19, 1985	Company	Former(b)	Current(c)
12	5	7	8	8	12	14	8	4	2	2	1	Lowenstein	6.1X	6.6X
NI	NI	NI	NI	NI	16	19	18	9	18	1	2	Farah Manufacturing	6.0	7.3
15	11	11	15	12	20	16	4	1	1	3	3	Collins & Aikman	6.2	7.8
3	16	5	6	1	6	1	1	5	7	15	4	Phillips-Van Heusen	8.7	8.4
12	6	9	11	8	15	12	5	2	4	8	5	VF Corp.	7.6	8.5
20	15	13	17	15	19	18	12	12	14	6	6	Hartmarx	7.4	8.8
1	3	2	1	2	2	5	2	3	3	4	7	Manhattan Industries	6.3	9.1
5	4	3	7	6	14	6	9	13	6	6	7	Russ Togs	7.4	9.1
6	12	10	11	10	16	20	15	15	12	8	9	Warnaco	7.6	9.2
NI	NI	NI	NI	NI	NI	NI	NI	16	9	11	10	Guilford Mills	7.9	9.8
2	6	6	4	7	4	11	12	17	14	8	11	Garan	7.6	9.9
17	13	16	18	15	16	17	14	20	17	12	12	Levi Strauss	8.3	10.5
NI	NI	NI	NI	NI	NI	NI	NI	18	13	16	12	Russell Corp.	9.0	10.9
7	9	8	9	12	3	8	15	10	9	13	14	Springs Industries	8.5	11.0
NI	NI	NI	NI	NI	NI	NI	5	7	4	5	15	Oxford	7.1	12.6
4	2	3	3	5	5	2	7	5	16	17	15	Palm Beach	9.3	12.6
17	21	20	20	20	7	2	3	7	9	20	17	Burlington Inds.	11.5	13.2
12	9	11	13	14	13	8	10	10	7	13	18	West Point-Pepperell	8.5	13.3
NI	NI	NI	NI	NI	21	21	19	21	21	18	18	Liz Claiborne	11.1	13.3
19	19	19	16	15	10	2	11	14	20	19	20	Fieldcrest	11.3	15.4
16	17	13	10	15	10	8	21	22	22	22	21	Riegel Textile	26.7	24.8
NI	1	1	2	4	8	7	20	23	23	21	22	Salant	14.0	-
8	13	13	14	11	8	14	15	19	19	NI	NI	Blue Bell	NI	NI
8	20	16	19	15	1	13	NI	NI	NI	NI	NI	Cone Mills	NI	NI
8	8	21	4	3	NI	NI	NI	NI	NI	NI	NI	Puritan Fashions	NI	NI
11	18	16	21	NI	NI	NI	NI	NI	NI	NI	NI	Dan River	NI	NI
NI	NI	NI	NI	NI	NI	NI	NI	NI	NI	NI	NI	Cannon Mills	NI	NI
NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NI	NI	Jonathan Logan	NI	NI
NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	Kellwood	NR	NR
NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	Cluett, Peabody	NR	NR
NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	J. P. Stevens	NR	NR

(a)Cluett, Peabody, Kellwood, and J. P. Stevens have been omitted from this ranking because a partner of Goldman, Sachs & Co. is on the board of directors of these companies. The firm, as a matter of policy, excludes estimates of future earnings or any related data in securities research reports.

(b)Based on December 14, 1984 prices and estimated 1985 earnings.

(c)Based on March 19, 1985 prices and estimated 1985 earnings.

NI - Not included.

NR - Not ranked for legal reasons.

Table 14

Rank of Current Yields for
Selected Textile and Apparel Companies

Rank													Yield	
Mar 31, 1982	May 28, 1982	Aug 20, 1982	Nov 22, 1982	Apr 6, 1983	Jul 8, 1983	Nov 2, 1983	Feb 22, 1984	May 25, 1984	Sept 14, 1984	Dec 14, 1984	Mar 19, 1985	Company	Former(a)	Current(b)
1	1	2	2	1	1	1	2	5	4	1	1	Riegel Textile	9.0%	9.7%
6	3	3	6	5	3	2	4	2	2	3	2	J. P. Stevens	7.0	7.2
2	4	1	1	2	2	3	1	4	1	4	3	Fieldcrest	6.6	6.5
8	11	9	8	5	8	6	2	3	4	5	4	Burlington Inds.	6.3	6.2
4	5	10	10	9	6	5	7	6	6	6	5	West Point-Pepperell	6.1	5.9
7	9	11	12	12	13	8	6	1	2	2	6	Levi Strauss	7.4	5.8
15	16	15	14	13	5	10	12	7	8	12	7	Spring Industries	4.5	4.6
NI	NI	NI	NI	NI	22	22	20	9	17	7	8	Farah Manufacturing	4.9	4.5
11	12	5	8	11	11	10	8	12	7	7	9	Russ Togs	4.9	4.4
11	19	18	15	21	15	15	17	19	9	9	10	Lowenstein	4.7	4.3
3	2	4	3	7	6	12	10	15	12	9	11	Garan	4.7	4.0
17	21	22	22	19	17	21	17	17	16	9	11	Warnaco	4.7	4.0
17	15	12	19	14	14	19	10	8	12	14	11	Hartmarx	4.1	4.0
NI	NI	NI	NI	NI	19	15	15	15	12	14	14	Kellwood	4.1	3.7
13	14	20	15	17	18	18	13	12	11	13	15	VF Corp.	4.2	3.5
16	17	14	13	15	15	13	14	17	12	16	15	Cluett, Peabody	3.5	3.5
NI	NI	NI	NI	NI	NI	NI	NI	21	20	18	15	Oxford	3.2	3.5
9	6	6	3	7	10	8	8	10	18	18	18	Palm Beach	3.2	3.2
14	13	15	17	16	21	20	19	20	19	17	19	Collins & Aikman	3.3	2.8
NI	NI	NI	NI	NI	NI	NI	NI	22	21	20	19	Guilford Mills	2.5	2.8
22	23	23	23	23	24	24	23	25	24	21	21	Manhattan Industries	2.4	2.2
NI	NI	NI	NI	NI	NI	NI	NI	21	22	22	22	Russell Corp.	2.2	1.9
20	22	19	17	19	23	23	21	24	25	24	23	Phillips-Van Heusen	1.5	1.7
NI	NI	NI	NI	NI	25	25	24	26	26	23	24	Liz Claiborne	2.0	0.8
NI	17	12	11	10	12	6	15	14	27	25	25	Salant	Nil	Nil
7	6	8	7	3	4	4	5	11	10	NI	NI	Blue Bell	NI	NI
19	20	21	21	17	19	17	21	23	23	NI	NI	Jonathan Logan	NI	NI
10	10	6	5	4	8	13	NI	NI	NI	NI	NI	Cone Mills	NI	NI
23	24	24	24	24	25	25	NI	NI	NI	NI	NI	Puritan Fashions	NI	NI
NI	NI	NI	NI	NI	NI	NI	NI	NI	NI	NI	NI	Cannon Mills	NI	NI
5	8	17	20	22	NI	NI	NI	NI	NI	NI	NI	Dan River	NI	NI

(a)Based on December 14, 1984 prices.
(b)Based on March 19, 1985 prices.

NI - Not included.

Table 15

Rank of Market versus Book Value for
Selected Textile and Apparel Companies

Rank													Market/Book	
Mar 31, 1982	May 28, 1982	Oct 20, 1982	Nov 22, 1982	Apr 6, 1983	Jul 8, 1983	Nov 2, 1983	Feb 22, 1984	May 25, 1984	Sept 14, 1984	Dec 14, 1984	Mar 19, 1985	Company	Former(a)	Current(b)
3	2	3	5	8	3	1	2	1	2	2	1	J. P. Stevens	56%	54%
NI	11	9	6	5	6	3	3	4	1	1	2	Salant	53	57
3	4	5	8	3	1	2	5	6	6	3	2	Riegel Textile	61	57
5	6	8	9	7	9	7	1	2	2	4	4	Burlington Inds.	62	64
9	12	11	12	11	4	6	5	3	5	7	5	Springs Industries	69	66
5	7	4	4	6	5	5	4	5	4	6	6	Fieldcrest	68	70
15	19	13	11	10	12	16	14	12	10	5	7	Manhattan Industries	66	72
9	10	13	17	16	13	14	11	7	9	9	8	West Point-Pepperell	82	84
11	8	7	7	9	7	10	8	9	8	10	9	Lowenstein	91	97
2	3	2	1	1	7	10	7	10	13	19	10	Phillips-Van Heusen	132	103
NI	NI	NI	NI	NI	18	8	10	8	7	8	11	Kellwood	81	105
12	16	12	14	14	11	13	9	11	11	12	12	Cluett, Peabody	107	109
17	20	17	17	19	19	18	15	16	12	11	13	Russ Togs	103	112
NI	NI	NI	NI	NI	NI	NI	NI	18	19	13	13	Oxford	110	112
20	22	23	21	21	20	23	20	23	24	13	15	Warnaco	110	127
19	18	20	20	20	17	20	17	12	16	17	16	Hartmarx	120	133
15	15	18	15	17	16	17	19	22	23	16	17	Garan	117	135
NI	NI	NI	NI	NI	NI	NI	NI	19	18	17	18	Guilford Mills	120	136
18	17	16	13	15	14	15	13	15	21	20	19	Palm Beach	137	139
21	21	22	22	22	21	22	18	14	15	15	20	Levi Strauss	111	147
NI	NI	NI	NI	NI	NI	NI	NI	21	22	22	21	Russell Corp.	143	161
14	13	19	19	18	22	21	21	20	17	21	22	Collins & Aikman	141	178
NI	NI	NI	NI	NI	24	25	23	25	26	23	23	Farah Manufacturing	198	179
22	23	24	23	23	25	24	22	26	25	24	24	VF Corp.	208	222
NI	NI	NI	NI	NI	26	26	24	26	27	25	25	Liz Claiborne	558	675
7	9	10	10	12	15	8	16	17	14	NI	NI	Jonathan Logan	NI	NI
13	14	13	16	13	10	12	12	18	20	NI	NI	Blue Bell	NI	NI
7	5	5	3	2	2	4	NI	NI	NI	NI	NI	Cone Mills	NI	NI
23	24	21	24	24	23	19	NI	NI	NI	NI	NI	Puritan Fashions	NI	NI
NI	NI	NI	NI	NI	NI	NI	NI	NI	NI	NI	NI	Cannon Mills	NI	NI
1	1	1	2	4	NI	NI	NI	NI	NI	NI	NI	Dan River	NI	NI

(a) As of December 14, 1984.
(b) As of March 19, 1985.

NI-Not included.

Table 16

Rank of Estimated Return on Equity for Selected Textile and Apparel Companies

Rank														Return on Equity(a)	
Dec 11, 1981	Mar 31, 1982	May 28, 1982	Aug 20, 1982	Nov 22, 1982	Apr 6, 1983	Jul 8, 1983	Nov 2, 1983	Feb 22, 1984	May 25, 1984	Sept 14, 1984	Dec 14, 1984	Mar 19, 1985	Company	Former(b)	Current(c)
NI	NI	NI	NI	NI	NI	1	1	1	1	1	1	1	Liz Claiborne	50.7%	51.0%
2	2	2	1	2	2	2	2	2	2	2	3	2	VF Corp.	26.3	26.3
NI	NI	NI	NI	NI	NI	3	3	3	3	4	2	3	Farah Manufacturing	33.9	24.9
11	11	12	9	10	10	7	4	4	4	3	4	4	Collins & Aikman	22.8	22.8
10	10	10	11	9	8	12	11	11	14	13	6	5	Hartmarx	15.5	15.2
NI	NI	NI	NI	NI	NI	NI	NI	NI	10	7	5	6	Russell Corp.	15.9	14.8
16	17	15	14	15	15	18	16	14	12	15	8	7	Lowenstein	15.2	14.6
NI	NI	NI	NI	NI	NI	NI	NI	NI	8	8	11	8	Guilford Mills	14.8	14.0
3	7	8	7	5	3	5	5	9	20	18	15	8	Levi Strauss	13.2	14.0
7	5	9	6	7	6	8	8	7	7	8	9	10	Garan	15.1	13.8
5	3	3	2	3	4	6	6	6	6	6	13	11	Warnaco	14.3	13.7
9	8	5	5	6	5	11	10	8	10	12	14	12	Russ Togs	14.2	12.7
18	15	18	15	17	16	15	13	12	9	11	11	13	Phillips-Van Heusen	14.8	12.5
4	6	5	4	8	7	9	9	9	11	10	10	14	Palm Beach	14.9	11.0
NI	NI	NI	NI	NI	NI	NI	NI	NI	5	5	7	15	Oxford	15.3	8.8
6	4	4	3	4	9	10	7	5	10	14	16	16	Manhattan Industries	10.3	8.0
14	13	13	12	11	11	13	12	13	16	17	17	17	West Point-Pepperell	9.7	6.3
12	12	11	9	11	14	17	18	17	18	19	18	18	Springs Industries	8.0	5.9
18	17	20	18	19	18	16	15	15	19	21	20	19	Burlington Inds.	5.4	4.8
20	18	16	19	18	17	21	16	18	17	20	19	20	Fieldcrest	5.7	4.6
13	19	16	16	16	19	22	21	19	21	22	22	21	Riegel Textile	2.4	2.4
NI	NI	7	8	14	13	20	20	20	22	23	21	22	Salant	4.6	Nil
8	9	14	13	13	12	14	14	16	15	15	NI	NI	Blue Bell	NI	NI
17	15	19	17	20	20	19	19	NI	NI	NI	NI	NI	Cone Mills	NI	NI
1	1	1	NE	1	1	NE	NE	NE	NI	NI	NI	NI	Puritan Fashions	NI	NI
21	20	21	20	21	NA	NI	NI	NI	NI	NI	NI	NI	Dan River	NI	NI
15	NI	NI	NI	NI	NI	NI	NI	NI	NI	NI	NI	NI	Cannon Mills	NI	NI
NE	NE	NE	NE	NE	NE	NE	NE	NE	NE	NE	NI	NI	Jonathan Logan	NI	NI
NE	NE	NE	NE	NE	NE	NE	NE	NE	NE	NE	NE	NE	Kellwood	NE	NE
NE	NE	NE	NE	NE	NE	NE	NE	NE	NE	NE	NE	NE	Cluett, Peabody	NE	NE
NE	NE	NE	NE	NE	NE	NE	NE	NE	NE	NE	NE	NE	J. P. Stevens	NE	NE

(a)Estimated 1985 profits as a percent of latest available book value.
(b)As of December 14, 1984.
(c)As of March 19, 1985.

NE - No estimate.
NI - Not included.

Table 17

Selected Textile and Apparel Companies
Listed in Order of Overall Average Ranking

Rank																		
Nov 22, 1982	Apr 6, 1982	Jul 8, 1983	Nov 2, 1983	Feb 22, 1984	May 25, 1984	Sept 14, 1984	Dec 14, 1984	Mar 19, 1985	Company	Nov 22, 1982	Apr 6, 1982	Jul 8, 1983	Nov 2, 1983	Feb 22, 1984	May 25, 1984	Sept 14, 1984	Dec 14, 1984	Mar 19, 1985
9	17(*)	13*	15	9*	7	1*	1	1	Lowenstein	11.25	13.25	13.00	13.75	11.75	11.00	8.50	7.25	6.75
NE	NE	19	19	19	9*	20(*)	2*	2	Farah Manufacturing	NE	NE	16.25	17.25	16.00	11.50	16.25	8.25	9.00
21	20	18	18	16	9*	13(*)	7*	3*	Hartmarx	16.25	14.25	15.50	17.00	12.50	11.50	13.75	10.75	9.50
5	8	14(*)	8*	4	13(*)	3*	3	4	Russ Togs	9.50	10.25	13.75	11.00	10.25	12.75	9.25	9.50	10.25
16	11*	8	2*	1	1	2	15(*)	5*	Burlington Inds.	14.00	12.50	10.00	7.50	5.25	7.75	9.00	12.25	11.00
9	11	1*	7(*)	15(*)	2*	6(*)	16(*)	5*	Springs Industries	11.25	12.50	7.00	10.50	12.25	9.50	10.25	12.50	11.00
4	5	3	3	9(*)	15(*)	12	13	7*	Riegel Textile	9.00	9.50	8.50	8.00	11.75	13.50	13.50	12.00	11.25
17	18	16	20(*)	18	17	16	5*	8	Warnaco	14.25	13.50	14.75	17.50	14.50	15.25	14.50	10.75	11.50
17	15	14	13	9*	16(*)	11*	8	8	Levi Strauss	14.25	13.00	13.75	13.00	11.75	13.75	13.00	11.00	11.50
13	11	17(*)	16	7*	4	7	11(*)	8	VF Corp.	12.75	12.50	15.00	14.00	10.50	10.00	10.50	11.50	11.50
13	11	9	6	5	3	4	9(*)	11	West Point-Pepperell	12.75	12.50	11.25	9.75	9.75	9.75	9.75	11.25	12.00
19	19	20	17	12*	8*	5	9(*)	11	Collins & Aikman	15.25	14.00	17.50	15.25	12.00	11.25	10.00	11.25	12.00
2	3	3	11(*)	12	18(*)	16	4*	13(*)	Garan	7.25	9.25	8.50	12.00	12.00	15.25	14.50	10.50	12.25
6	7	6	1*	2	4	8(*)	13(*)	13	Fieldcrest Mills	9.75	10.00	9.50	6.50	8.50	10.00	11.25	12.00	12.25
8	3*	12(*)	10	5*	11(*)	14	22(*)	15*	Phillips-Van Heusen	10.25	9.25	12.75	11.75	10.25	12.00	14.00	17.25	12.50
6	10(*)	11	13	8*	12(*)	10	11	16(*)	Manhattan Industries	9.75	11.00	12.00	13.00	11.00	12.50	12.75	11.50	12.75
NE	NE	NE	NE	NE	21	14*	17	17	Guilford Mills	NE	NE	NE	NE	NE	16.25	14.00	14.75	13.75
NE	NE	NE	NE	NE	14	9*	5*	18(*)	Oxford	NE	NE	NE	NE	NE	13.00	12.00	10.75	14.50
NE	NE	NE	NE	NE	22	18*	18	19	Russell Corp.	NE	NE	NE	NE	NE	17.50	16.00	15.75	15.50
1	2	6(*)	4	3	6	20(*)	19	20	Palm Beach	6.75	8.50	9.50	8.50	9.25	10.25	16.25	16.25	16.50
NE	NE	22	21	20	23	22	20	21	Liz Claiborne	NE	NE	18.25	18.25	17.00	18.50	18.25	16.75	17.00
3	1	10(*)	5*	17(*)	19	22	21	22	Salant	8.25	8.00	11.50	9.00	14.25	15.75	18.25	17.00	17.75
12	6*	5	8	12(*)	19(*)	18	NE	NE	Blue Bell	12.50	9.75	9.00	11.00	12.00	15.75	16.00	NE	NE
11	8	2*	12(*)	NE	NE	NE	NE	NE	Cone Mills	11.75	10.25	7.50	12.25	NE	NE	NE	NE	NE
NE	NE	NE	NE	NE	NE	NE	NE	NE	Cannon Mills	NE	NE	NE	NE	NE	NE	NE	NE	NE
20	NA	NE	NE	NE	NE	NE	NE	NE	Dan River	16.00	16.00	NE	NE	NE	NE	NE	NE	NE
15	15	NE	NE	NE	NE	NE	NE	NE	Puritan Fashions	13.25	13.00	NE	NE	[illegible]	NE	NE	NE	NE
NE	NE	NE	NE	NE	NE	NE	NE	NE	Kellwood	NE	NE	NR	NR	NR	NR	NR	NR	NR
NE	NE	NE	NE	NE	NE	NE	NE	NE	Cluett, Peabody	NR	NR	NR	NR	NR	NR	NR	NR	NR
NE	NE	NE	NE	NE	NE	NE	NE	NE	Jonathan Logan	NR	NR	NR	NR	NR	NR	NR	NR	NR
NE	NE	NE	NE	NE	NE	NE	NE	NE	J.P Stevens	NR	NR	NR	NR	NR	NR	NR	NR	NR

Table 18

Overall Ranking

Company	P/E (Low to High) 12/14/84	P/E (Low to High) Current	Yield (High to Low) 12/14/84	Yield (High to Low) Current	ROE (High to Low) 12/14/84	ROE (High to Low) Current	Market-to-Book (Discount to Premium) 12/14/84	Market-to-Book (Discount to Premium) Current	Average of Four Columns 12/14/84	Average of Four Columns Current
Blue Bell	NI	NI	NI	NI	NI	NI	NI	NI	NI	NI
Burlington Inds.	20(*)	17	5	4	20	19	4	4	12.25	11.00
Liz Claiborne	18	18	23	24	1	1	25	25	16.75	17.00
Cannon Mills	NI	NI	NI	NI	NI	NI	NI	NI	NI	NI
Cluett, Peabody	NR	NR	16(*)	15	NE	NE	12	12	NR	NR
Collins & Aikman	3	3	17	19	4	4	21(*)	22	11.25	12.00
Cone Mills	NI	NI	NI	NI	NI	NI	NI	NI	NI	NI
Dan River	NI	NI	NI	NI	NI	NI	NI	NI	NI	NI
Farah Manufacturing	1*	2	7*	8	2	3	23	23	8.25	9.00
Fieldcrest	19	20	4	3	19	20	6	6	12.00	12.25
Garan	8*	11	9	11	9	10	16*	17	10.50	12.25
Guilford Mills	11	10	20	19	11	8	17	18	14.75	13.75
Hartmarx	6*	6	14	11	6*	5	17	16	10.75	9.50
Kellwood	NR	NR	14	14	NE	NE	8	11	NR	NR
Jonathan Logan	NI	NI	NI	NI	NI	NI	NI	NI	NI	NI
Levi Strauss	12*	12	2	6(*)	15	8*	15	20(*)	11.00	11.50
Lowenstein	2	1	9	10	8*	7	10	9	7.25	6.75
Manhattan Industries	4	7	21	21	16	16	5*	7	11.50	12.75
Oxford	5	15(*)	18	15	7	15(*)	13*	13	10.75	14.50
Palm Beach	17	15	18	18	10	14(*)	20	19	16.25	16.50
Phillips-Van Heusen	15(*)	4*	24	23	11	13	19(*)	10*	17.25	12.50
Puritan Fashions	NI	NI	NI	NI	NI	NI	NI	NI	NI	NI
Riegel Textile	22	21	1	1	22	21	3	2	12.00	11.25
Russ Togs	6	7	7	9	14	12	11	13	9.50	10.25
Russell Corp.	16	13	22	22	5	6	22	21	15.75	15.50
Salant	21	22	25	25	21	22	1	2	17.00	17.75
Springs Industries	13(*)	14	12(*)	7*	18	18	7	5	12.50	11.00
J. P. Stevens	NR	NR	3	2	NE	NE	2	1	NR	NR
VF Corp.	8(*)	5	13	15	3	2	24	24	11.50	11.50
Warnaco	8*	9	9*	11	13(*)	11	13	15	10.75	11.50
West Point-Pepperell	13(*)	18(*)	6	5	17	17	9	8	11.25	12.00

* Increase in ranking by four points or more.
(*)Decline in ranking by four points or more.

NE - No estimate.
NI - Not included.
NR - See Table 13, footnote (a).

Chairman GIBBONS. Mr. Hufbauer.

STATEMENT OF GARY CLYDE HUFBAUER, SENIOR FELLOW, INSTITUTE FOR INTERNATIONAL ECONOMICS

Mr. HUFBAUER. Thank you, Mr. Chairman.

My name is Gary Hufbauer. I am a senior fellow at the Institute for International Economics. This is a nonprofit institution in Washington devoted to public policy issues in international economics.

Mr. Chairman, the outline of my statement that I gave to the committee contains a great many estimates which are preliminary results from a larger study on trade policy for troubled industries that I am directing at the institute. For reasons of brevity I did not qualify these rough calculations in the outline, but you should read them with qualifications as I speak. They are preliminary; they are rough.

Since 1957, U.S. imports of textiles and apparel have been restrained by an ever-widening net of controls, expanding in country and product coverage in an attempt to slow the competitive march of foreign suppliers. This process started with the Voluntary Restraint Agreement with Japan in the 1957-1962 period, which limited cotton textile exports. Parenthetically, I might note that, in the 1930's, the United States and other Western industrial countries restrained Japanese exports through voluntary restraint agreements and other means.

The 1957 agreement with Japan, of course, wasn't the final answer. In fact, it was only the opening shot. We moved on to the short-term arrangement, still limited to cotton textiles, which restrained Asian exporters that were then emerging—Hong Kong, Taiwan, and so forth; this lasted 1 year, and gave way to the long term arrangement, which was ultimately used by the United States to negotiate or impose bilateral quotas on some 37 countries, still limited to cotton textiles.

Then we had the first multifiber arrangement I [MFA I] from 1974 to 1977. By 1974, manmade fibers and wool were beginning to be a problem in the U.S. market. MFA I covered those fibers and, of course, extended the umbrella approach for negotiating bilateral arrangements. Then we had MFA II from 1978 to 1981, and now we're into MFA III, with a life from January 1982 to July 1986. MFA III allows importing countries such as the United States more latitude in restricting imports on a bilateral basis.

This whole story reads like an effort at plugging the dike with many fingers over a long period of time. Just to put my biases on the table, I think it is a virtue that the dike has had some leaks; but I realize that many others, such as my friend Stanley Nehmer, regard each leak as a potential disaster.

The result is a complex web of arrangements that protects the U.S. market from foreign suppliers, but also— and quite importantly—it protects foreign suppliers from each other. Today, of course, everyone in the textile trade is quite worried about China. Not only producers here in the United States, but Hong Kong and European producers are worried about China.

Further, the exemption of the Europeans, Japanese, and Canadians from bilateral restrictions means that we are buying high cost textiles from other industrial countries rather than low cost textiles from Hong Kong, China, India, and so forth. There are good geopolitical reasons for the United States, Canada, Japan, and Europe to operate a "quota free" textile and apparel system between themselves, but the resulting pattern of trade is very inefficient and costly.

Despite restrictions, U.S. imports of textiles and apparel have grown from about 6 percent of domestic consumption in 1960, to 9 percent in 1970, to 12 percent in 1980, and to some 20 percent in 1984. Import growth in the 1980's was spurred by a soaring dollar. You well know Mr. Chairman, that the dollar is playing havoc with our producers across a wide range of industries. We now have a trade deficit with nearly every country save Saudi Arabia. Turning to textiles and apparel, in 1984 much of the U.S.-import growth came from Europe and Canada which are not, of course, covered by the MFA quotas, and from transshipments, broadly defined.

The wall of trade protection has grown higher as the network of controls has been extended. A rough estimate is that in the 1962–1973 period, quotas really didn't have much effect because only cotton textiles were covered and manmade fibers, which provided the cutting edge of trade developments, were excluded. Tariffs were the main protective barrier. At that time the average tariff on textiles was probably about 14 to 15 percent, and on apparel, about 27 percent.

Today, by my estimates, the combination of the tariff and the quota premium on textiles probably adds up to something like 21 percent, while the combination of tariff and quota premium on apparel may approximate 39 percent. These rising levels of protection translate into higher consumer costs for textiles and apparel. In 1974, the cost of restraints to U.S. consumers was something like $9 billion; by 1981, that cost had risen to $20 billion annually; in 1984, the cost reached $26 billion.

There are several counterparts to these higher costs paid by U.S. consumers. First and foremost, as a result of trade restraints, larger earnings are paid to workers and companies; next tariffs are collected by the U.S. Treasury; next, scarcity premiums are realized by foreign holders of quotas; and finally, there are outright losses from a less efficient economy. In 1984, the gains to U.S. producers—that is, both workers and companies—were in the $20 billion range. Tariff revenues were about $3 to $4 billion. The gain to foreign exporters through quota premiums were about $1 billion. And the efficiency loss to the U.S. economy was in the $5 billion range. Again, these are all rough estimates. The important point, I suppose, is that most of the counterpart of higher costs paid by consumers is higher earnings realized by producers. Textile and apparel profits are not a large number; Mr. Meltzer noted how discouraging the trend has been. A rough number for total textile and apparel profits might be in the $2 to $3 billion range. So, of the $26-odd billion that goes is transferred by protection from consumers to the industry, much the greater part really goes to wages.

Turning to the employment picture over the last 25 years or so, overall U.S. employment levels—if you look at textiles and apparel combined—are remarkably constant. But there has been a significant drop in textile employment and some rise in apparel employment by comparison with 1960; say, a drop in textiles of about 140,000 and a rise in apparel of about 115,000. This summary passes too quickly over the bulge in employment that occurred in the late 1970's. According to my numbers, 1977 was probably a high recent year; and since 1977, the total loss of jobs to the industry has been about 250,000.

I would note by way of comparison that Europe, which is by no means a free trade area for textiles and apparel, there has been considerably more labor adjustment. European employment in textiles and apparel combined is roughly half today of what it was in 1960.

My estimates indicate that trade restrictions "saved"—I put the word in quotation marks to indicate that this is not a general equilibrium analysis and it does not take into account labor mobility into other industries—some 640,000 jobs in the textiles and apparel industry in 1984. That number corresponds to an estimate of about $28 billion of textiles and apparel excluded from the U.S. market that would have entered had we had no quota system and no tariffs. My estimate of the cost to consumers per job saved works out, on these numbers, to about $40,000.

These figures, I think, indicate that very substantial gains could be realized from policies that allowed greater imports of textiles and apparel, but they also indicate that freer trade would put a huge number of people out of work. These people would be out of work at least temporarily, and some would stay out of work for a very long period of time.

One approach that we have explored at the institute with a view both toward freer trade and meaningful adjustment by the industry would involve the following elements:

The United States would auction quotas to the highest bidder rather than assigning them to foreign countries as we do today. That change would realize revenue for the U.S. Treasury instead of giving quota premiums to foreign suppliers.

The United States would dedicate this quota revenue, and also existing tariff revenue, to adjustment in the industry. This approach contemplates an order of magnitude more liberal benefits than have historically been available under the Trade Adjustment Assistance Program or under the Job Partnership Training Act.

Third, as workers and firms leave the industry, assisted by the adjustment program, the United States would enlarge the level of quotas offered by auction, and thereby gradually—I emphasize gradually—come to a system of freer trade.

The approach that I have very briefly sketched is designed to provide a self-financed way of liberalizing textile and apparel trade. But it entails a complete reversal of the dike-plugging approach of textile and apparel trade policy of the past 30 years. Rough estimates indicate that, in 1986, an adjustment program, if implemented along these lines, would cost about $1.7 billion. By comparison, textile and apparel quota auction and tariff revenues raised in that year would be about $4.9 billion. The $1.7 billion figure for an adjustment program contemplates the permanent departure from the industry in that year of about 50,000 workers. About 20,000 of those workers leave because of higher productivity. That's a constant source of job loss from this industry, regardless of imports. And another 30,000 would leave in 1986 because of a rising import share under the contemplated program. Similar but declining amounts for adjustment would be spent in subsequent years. Under this program, industry employment would decline hypothetically from about 2 million in 1984 to about 1.7 million in 1990, and imports would rise from about 20 percent of the domestic market to about 28 percent.

Mr. Chairman, I would conclude by emphasizing that these are all preliminary estimates.

Thank you.

[The prepared statement follows:]

STATEMENT OF GARY CLYDE HUFBAUER, SENIOR FELLOW, INSTITUTE FOR INTERNATIONAL ECONOMICS

1. Since 1957, U.S. imports have been restrained by an ever widening net of controls, expanding in country and product coverage in an attempt to slow the competitive march of foreign suppliers.

(a) VRA with Japan, 1957-1962, limiting cotton textile exports.

(b) Short Term Arrangement Regarding International Trade in Cotton Textiles (STA), 1961-1962, signed by 16 importing and exporting countries.

(c) Long Term Arrangement Regarding International Trade in Cotton Textiles (LTA), 1962-1973; ultimately used by the U.S. to impose bilateral quota restrictions on 37 countries.

(d) First Arrangement Regarding International Trade in Textiles (first Muiltifiber Arrangement or MFA I), 1974-1977; used by the U.S. to impose bilateral quota restrictions covering man-made fiber, wool, and cotton textile imports from all important suppliers except Canada and Europe.

(e) Second Arrangement Regarding International Trade in Textiles (MFA II), 1978-1981, which extended MFA I and allowed importing countries more latitude in setting bilateral quotas.

(f) Third Arrangement Regarding International Trade in Textiles (MFA III), January 1, 1982 to July 31, 1986, which allowed importing countries still more latitude in setting bilateral quotas.

Under the umbrella of MFA III, the U.S. has negotiated bilateral restraint agreements with 24 countries, covering a detailed list of textile and apparel products. The EEC, Canada, and other importing countries have their own bilateral programs.

The result is a complex web that not only protects the U.S. market from foreign suppliers but also protects foreign suppliers from each other. Today, many foreign suppliers to the U.S. market are exceedingly anxious that China might be granted larger quotas—at their expense.

2. Despite restrictions, U.S. imports of textiles and apparel grew from 6.3% of domestic consumption (in 1960) to 9.0% (in 1970) to 12.1% (in 1980) to 20.4% (in 1984). Import growth in the 1980s was spurred by a soaring dollar; in 1984, much of the growth came from the EEC and Canada (non-MFA countries), and from transshipments.

3. The wall of trade protection grew higher as the network of controls was extended. Over the period 1962-1973, the average tariff on textiles was 14.5 percent while the average tariff on apparel was 27.0 percent. During those years, quota restrictions on cotton textiles and apparel added little to the price of imports because other fibers could enter the United States without quantitative restraints. By 1983, the average tariff plus quota premium on textiles had reached about 21 percent, while the average tariff plus quota premium on apparel had reached about 39 percent.

4. Rising levels of protection translate into higher consumer costs for textiles and apparel. In 1974, the cost of trade restraints to U.S. consumers was about $9.4 billion; in 1981, the cost was about $20 billion; in 1984, the cost reached about $26 billion.

5. There are several counterparts to higher costs paid by consumers: larger earnings by producers; tariffs collected by the U.S. Treasury; gains to foreign holders of

quotas; and sheer loss from a less efficient economy. In 1984, the gains to U.S. producers from trade restraints were about $22 billion; tariff revenues were about $3.5 billion; the gain to foreign exporters was about $1 billion; and the efficiency loss was about $5 billion.

6. Meanwhile, U.S. employment levels have been remarkably constant:

Year	Textiles	Apparel
1960	924,000	1,098,000
1970	975,000	1,196,000
1980	848,000	1,264,000
1984	765,000	1,215,000

By comparison employment in the EEC textile and apparel industry dropped by about a half over the period 1960–1984.

7. My estimates indicate that trade restrictions "saved" about 640,000 jobs in the textile and apparel industry in 1984. This happened because trade barriers excluded about $28 billion of foreign textiles that would otherwise have entered the United States. The cost to U.S. consumers per job "saved" works out to about $41,000.

8. These figures indicate that very substantial gains could be realized from policies that allowed greater imports of textiles and apparel. The figures also indicate that freer trade would put a huge number of people out of work. Much better programs need to be devised to deal with labor dislocation before textile and apparel trade can be (or will be) liberalized.

9. One approach that we have explored at the Institute involves the following elements:

(a) The United States would auction quotas to the highest bidder, rather than assign them to individual foreign countries.

(b) The United States would dedicate the quota revenue and existing tariff revenue, as needed to the adjustment needs of the industry.

(c) As workers and firms leave the industry, the United States would enlarge the level of quotas offered at auction.

10. This approach is designed to offer a gradual, self-financed way of liberalizing textile and apparel trade. It is also intended to share the benefits of free trade between American workers, firms, and consumers. Rough estimates suggest that the adjustment program cost in 1986 would be about $1.7 billion, by comparison with textile and apparel quota auction and tariff revenues of $4.9 billion. Similar, but declining amounts would be spent in subsequent years. Under this program, industry employment would decline from 2.0 million in 1984 to 1.7 million in 1990, and imports would rise from 20% of the domestic market to about 28%. The level of protection (tariffs and quotas) would decline from about 31% in 1984 to about 12% in 1990.

Chairman GIBBONS. Thank you, Mr. Hufbauer. That's an interesting proposal that you have there.

How did we get into this arrangement we've got now? When we started off, we had one little problem with Japan, is that right? I'm calling on both of you gentlemen, Mr. Meltzer, because of your vast knowledge of the subject. I guess we came out of World War II pretty competitive, and then we began to slip in relation to other nations. Is that what happened?

Mr. HUFBAUER. In this industry, I think that's exactly what happened. I think we have a huge disadvantage, competitive disadvantage, comparative disadvantage, call it what you will, in this industry. The disadvantage began to emerge in the late 1950's.

There is a curious bit of history, if I can take your time. In the 1950's we had a program of exporting raw cotton at a lower price than we sold it to our domestic textile manufacturers. And they rightly came in and complained. That, in fact, was the entering wedge of the argument for some restraint on textile imports. After all, the foreigners—here we are speaking of the Japanese—were getting the raw material cheaper than domestic producers could buy it——

Chairman **Gibbons**. How did we get into that program? How did we get to selling to the domestic producers, cotton at a higher price than we sold it to the foreigners?

Mr. **Hufbauer**. That was an early section 22 program. And it was not so different from what the EC does today, in terms of its whole agricultural program, namely, to maintain a high domestic price and to export goods more cheaply abroad. We departed from that approach to agricultural programs rather early in the game, but in the 1950's we had it in cotton.

Chairman **Gibbons**. So because of an agricultural program to support cotton farmers, we got into this system?

Mr. **Hufbauer**. I suppose, Mr. Chairman, that if we had not had that, there would have been other——

Chairman **Gibbons**. We would have come into it some other way.

Mr. **Hufbauer**. Yes, because there was enormous and growing competitive pressure from abroad in this industry.

Chairman **Gibbons**. Got any views on that, Mr. Meltzer? Is that the way you remember it too?

Mr. **Meltzer**. I certainly remember that. There was dancing in the domestic street when cotton became one price. Unfortunately, that dancing was premature.

I would say only this, that apparel is an easily entered industry. It is a logical Third World industry. It is a labor-intensive industry; it employs a lot of people per unit. And that's where we started to become uncompetitive. Over the years, it was apparel that made inroads into the American market. That's where the cries for help started first, initially in cotton apparel, and then it spread as we became uncompetitive in more and more areas.

Chairman **Gibbons**. Mr. Meltzer, you sat there and listened to Mr. Hufbauer talk about his sort of rough proposal as to what we ought to do to the garment industry, or the textile/garment industry, about quotas. What was your response to that? I'm just curious to know.

Mr. **Meltzer**. Well, first, I couldn't follow it. Second, you know, it's past my lunch time, and——

Chairman **Gibbons**. I understand that. I snacked a little on the side.

Mr. **Meltzer**. Ah, good. But second, I think there are consequences that I would just like to throw on the table. I have thought of a few consequences.

Chairman **Gibbons**. Sure. Go right ahead.

Mr. **Meltzer**. As you decimate an American industry, you make yourself more and more vulnerable to whatever the overseas producer wants to do. Right now, garments are being brought in and fabrics are being brought in at very low prices, in part because there is still an American industry. But who's to say what these prices will be if there is not an American industry? We should zero in on what we can do to make ourselves competitive, and how we can help the American industry survive.

Now, there are also other reasons why one buys domestically. We had a surge in imports last year of unprecedented proportions, and the consequences were enormous dislocations. We are living through an unprecedented inventory problem now, with the finger pointed directly at imports. Imports were contracted for long before the season began, because there is a long lead time. They come in when final demand wasn't as good as had been thought earlier. The consequence was excess inventory and excessive markdowns, hurting every aspect of the soft goods industry from the retailer right on down to the fiber producer. And we're still living through it. I think one of the reasons for the recent rollback in imports is that buyers are seeing it is not so economical to stretch yourself out too far in advance of the season. Even retailers agree that they would rather buy American wherever possible.

Chairman GIBBONS. Is the surge you're talking about due to optimistic overprojection of the retail market that just didn't materialize this last winter? Is that it?

Mr. MELTZER. Yes. Early last year the retailer was feeling pretty good about retail sales; not only that, he felt good about his ability to increase his market share. Therefore many retailers overbought, and many apparel companies overbought. Everybody overbought, and the consequence was excess inventory up and down the pipeline.

Chairman GIBBONS. Have we about worked our way out of that excessive inventory?

Mr. MELTZER. Well, we're working our way out of it. The inventory-shipment relationship is looking a lot better. But as late as today, Phillips-Van Heusen, who reported a poor recent quarter, said they don't see inventories being brought into line much before the end of their third quarter, which for them would be October 1985. We still have a way to go before our inventories are brought back in line.

Chairman GIBBONS. Let me ask you. If you had to sit here as a policymaker, first, would you recommend the continuation of the multifiber arrangement? Second, if you would recommend the continuation of it, how would you modify it to make it more effective?

Mr. MELTZER. I don't envy you. It's a tough decision.

I would recommend that MFA be continued. I think it is a good thing. It may not be a great thing, but it's certainly better than nothing. I think the previous MFA's were done in good faith and, if implemented properly, would have prevented this collapse that has taken place in the textile industry in the past 6 to 9 months. Therefore I would suggest that you don't tamper too much with it, but that you, as some of your questions have been leading to, assure that it is implemented the way it is written. If so, I think you will see a very cooperative textile and apparel industry, one that is functioning a lot better than it has functioned previously, one that will continue to bring its costs down, and reward the consumer.

Chairman GIBBONS. Well, I guess we're being rewarded, but I don't feel it or I can't measure it. I assume that that was the same argument that was made in 1957. I'm sure we didn't enter into that textile arrangement with Japan with the idea that it be permanent. It's not only been permanent, but it's expanded. Now, Mr. Hufbauer comes along and he says auction off the quotas; use the money that you get from auctioning the quotas to help the industry, and we would kind of open up our market; and the industry would shrink from about 2 million people down to about 1.7 million, and the market share would shrink from about—well, the market penetration would increase from about 20 percent to about 28 percent.

I kind of like the free market approach to most things. Why wouldn't that be best for America?

Mr. **Meltzer**. I think that's probably going to happen if you just reimplement the MFA.

Chairman **Gibbons**. You think it's going to happen anyway?

Mr. **Meltzer**. Yes. I think that import penetration will continue to pick up market share; what we must do is assure that it won't be 100 percent. By my calculations, it's now 22 percent, but that's semantics. I'd settle for 28 percent right now.

Chairman **Gibbons**. You are afraid, though, that it would go to 100 percent?

Mr. **Meltzer**. Yes.

Chairman **Gibbons**. Nothing made in America, you are saying, would be competitive. Is it labor cost or is it—what is it that makes America so uncompetitive?

Mr. **Meltzer**. Well, it's a lot of things. Certainly, labor cost is at the heart of the problem. You know, if you can get it easier overseas than build the plant and put in equipment where the return is uncertain in America, chances are that you, as an apparel producer will continue to go overseas. That's exactly what's happened. As the fiber industry has automated and become more productive, and as the textile industry has automated and become more productive, they look around and they find no customers. So, fine; what do they do? They throw in the towel, and the more marginal ones, as you said earlier, are gone.

Now, what we need is some kind of incentive for the customers to automate and build and bring the production of apparel back to America. Enforcing and implementing MFA is, I believe, that kind of incentive.

Chairman **Gibbons**. Thank you.

Mr. Crane.

Mr. **Crane**. Thank you, Mr. Chairman.

One of the things that you indicated, Mr. Meltzer, was the concern, I gather, about the formation of a Third World cartel if we were to implement Mr. Hufbauer's recommendations, a kind of garment equivalent of OPEC. On the other hand, you stated that it's your belief that this is essentially a market increasingly gravitating into Third World countries. The requirements for going into the garment industry do not necessitate, if you have a large labor force, a lot of big investment. Isn't that a built-in restraint on the potential for the formation of a Third World cartel in the textile industry?

Mr. **Meltzer**. I don't, in my wildest dreams, envision a Third World cartel, but I do see, if we lose control of our own production, more vulnerability to the vagaries of foreign governments. Japan has, in times past, put it to us after we've given up certain production, and the consequences have been very costly to the consumer. That's all I had in mind. I don't believe that there will be an apparel OPEC, but we will be much more vulnerable to prices getting out of our control. There's no assurance that imports will solve our price problems.

Mr. CRANE. You wouldn't anticipate more in this industry than oil—cheaters like Nigeria and cheaters like Iran that began unilaterally to undercut the cartel price for their own domestic reasons? You know, Milton Freidman has always made that argument, that you don't have to really have antitrust laws because everybody will start cheating sooner or later. They can only hold those cartels together for a period of time, and it would seem to me, in an industry like this, that would be more true than even for something like an OPEC cartel.

One of the concerns I do have, Mr. Hufbauer, in your proposal you've got a suggestion for how you deal with the labor dislocation. What do we do for the owners?

Mr. HUFBAUER. In the interests of brevity, Mr. Congressman, I didn't go into that. But my view on how the owners ought to be dealt with is approximately as follows. If a firm has unused operating loss carryforwards, or unused investment tax credit carryforwards, at the time it exits the industry, I would designate the ITC or some other agency to buy those unused carryforwards at their market value.

Mr. CRANE. Rather than auction them off?

Mr. HUFBAUER. Rather than auction them off. There is sort of a market for trafficking in these "assets," but it is a very imperfect market. Agency purchase of carryforwards would be the relief I would provide.

Briefly, that amounts to some relief for companies that leave the industry in a loss position. Companies which leave the industry but were profitable and therefore did not have overall operating loss carryforwards would not get relief. I think the capitalist system lets those companies take care of themselves.

Mr. CRANE. Mr. Meltzer, one other question on Mr. Hufbauer's proposal. Do you have any basic objection to auctioning off quotas, regardless of whether you pursued Mr. Hufbauer's suggestion? That seems like a sensible idea to me right there.

Mr. MELTZER. Really, I hadn't thought about it. I can't say—at this time, no. I can't think of any quick objection to auctioning off quotas, but give me 24 hours and I am sure I will come up with something.

Mr. HUFBAUER. Mr. Crane, if I could, I'll come up with one objecton right away. The auctioning of quotas would have the following result. It would take the quota rents from Hong Kong, Taiwan, and all these other countries, and it would put those rents in the U.S. Treasury. I happen to think that's a good thing, but you can be sure that Hong Kong exporters would think that's a very bad thing. They would cry for "compensation" in GATT terms.

To me, the problem with the system we have devised is that it too successfully serves too many producer interests simultaneously and therefore, like a juggernaut, just keeps rolling. One of the interests it serves is that the Hong Kong manufacturers and the Indian manufacturers get a great deal of benefit out of those quota rents. I think that's a misapplication of resources, but of course they think that's a correct application of resources.

Mr. Crane. I have no further questions, and just want to thank you gentlemen for being with us today.

Mr. Meltzer. Thank you, Congressman.

Chairman Gibbons. Thank you.

Our next panel of witnesses comes from the American Textile Manufacturers Institute, Mr. James H. Martin, Jr., president; he is the vice chairman of Ti-Caro of Gastonia, NC; from the International Ladies' Garment Workers, Mr. Sol Chaikin; from the Amalgamated Clothing & Textile Workers Union, Mr. Murray Finley; from Man-Made Fiber Producers Association, Mr. John Gregg; from the National Cotton Council, Mr. Samuel Hollis; and from the American Apparel Manufacturers Association, Mr. Ernest D. Mariani.

The gentleman who sits immediately to my right and who is, of course, the principal introducer and sponsor of the bill that many of you are interested in, explained to me before he left that he had to go to a leadership meeting involving action of the Budget Committee, which he is currently a member of. I told him that if he was not here when we convened this panel, I would explain his absence to you. It's certainly not his lack of interest but his many responsibilities that prevent him from being here while your opening statements are being made, and I hope he'll be able to return soon.

Mr. Martin, we'll go to you first.

STATEMENT OF JAMES H. MARTIN, JR., VICE CHAIRMAN, TI-CARO, INC., GASTONIA, NC, AND PRESIDENT, AMERICAN TEXTILE MANUFACTURERS INSTITUTE

Mr. Martin. Thank you, Mr. Chairman.

My name is James H. Martin, Jr., and I am president of the American Textile Manufacturers Institute. Accompanying me today are representatives of trade associations and labor unions which, together with ATMI, make up a substantial part of the American fiber, textile, and apparel industry. Each of these representatives will be speaking to you later.

We do thank you for this opportunity to appear before this subcommittee to discuss some of the key issues facing the U.S. fiber, textile, and apparel industry. And I would like to begin by stating very simply that I view the current textile import situation with a real sense of outrage. I'm outraged because what we have been witnessing is a series of actions and inactions by our Government which is putting this industry out of business. We feel especially betrayed by the absence of any meaningful, concrete measures that would cope with the import problem that we are facing. We feel that we have done things that an industry ought to do to survive. We have invested large sums of money in new plant and equipment, and we have significant productivity increases to show for it. We continue to be a major employer of people with entry-level skills, of women, and of minorities. We are a major source of employment in the apparel industry and the inner cities throughout the Nation. We are a modern and productive industry, but we are slowly being put out of business by low-cost imports.

Today there are fewer people employed in the textile industry than at any time since 1939. Over 200 textile mills have closed over the last 4 years. We have tried to fight back. We have tried to work with our Government, and we continue to work with our Government to try to get the textile import program adequately implemented and enforced.

We have taken numerous legal actions against unfair trade practices whenever we believe that a case can be made that countries are dumping goods in our markets or are benefiting from illegal export subsidies.

Our results of these efforts have been very mixed. We have tried to work with Customs to make sure that our borders are effectively policed, and we have tried to affect the basic trade policies of the administration so that an effective textile policy would emerge which would avoid the kind of destruction affecting this industry today.

Mr. Chairman, our successes have been few. We believe it would be far more honest if someone in this Government would have the courage to tell us straight out that the U.S. fiber, textile, and apparel industry, as a matter of policy, is being sacrificed.

Whatever the answer, we are not willing to give up the fight. There are simply too many American jobs at stake. We are now looking to Congress itself for a legislative remedy to solve our import problems. We have worked with the Congress to provide inputs which have led to the introduction of H.R. 1562, the Textile and Apparel Trade Enforcement Act of 1985.

Mr. Chairman, I understand that there are over 180 cosponsors of this bill, and we believe that its enactment will provide the kind of orderly trade and climate for investment in this industry which is needed if we are to survive. At this point, we know of no other solution to provide the kind of remedy which we need.

The legislative approach which we have taken is based on achieving the objectives of the multifiber arrangement because we do not believe that these objectives can otherwise be met with the kinds of policies that have been followed over the last 4 or 5 years.

If enacted, this bill will replace the sense of outrage which we feel with a sense of hope that this major manufacturing industry in the United States will survive.

Before thanking you again, Mr. Chairman, I'd like to make a couple of very simple statements.

The consumption of fiber in the United States has decreased from just under 60 pounds, peak, now to about 54 pounds per capita, and it's pretty obvious that our market is rather flat, and that the consumption pattern of the American people for textiles and apparel is also flat. In this case, if we continue to let imports roll into this country, there's only one result. We're going to put more people out of work.

Finally, another simple statement. We have heard a great deal of talk at this hearing today, which we are, again, very appreciative of, about the consumer. Sometimes when I'm listening to the plight of the consumer I feel as if I'm not a consumer, or the 2 million people in the textile industries are not consumers. But if you slice away the textile industry, we're going to have about 4 million consumers that are going to be out of a job. And I'd like to reiterate my position, that we are, after all, consumers too.

Thank you very much, Mr. Chairman.

[The prepared statement follows:]

Statement of James H. Martin, Jr., President, American Textile Manufacturers Institute, Inc.

Mr. Chairman, my name is James H. Martin, Jr. and I am president of the American Textile Manufacturers Institute. Accompanying me today are representatives of trade associations and labor unions which, together with ATMI make up a substantial part of the American fiber, textile an apparel industry. Each of these representatives will be speaking to you later.

On behalf of ATMI, which is the national trade association of the American textile and textile mill products industry, I want to express my appreciation for the opportunity to appear before this subcommittee to discuss issues facing the U.S. fiber, textile and apparel industry. Mr. Chairman, the U.S. textile industry and the entire complex from fiber production to production of finished apparel is facing the most serious challenge to its existence in modern times. It is the flood of imports which are posing this challenge. Textile and apparel imports have increased from 5 billion square yards in 1980 to almost 10 billion square yards last year. During that time, apparel imports have doubled their share of the domestic market to 50 percent. The result is that today there are fewer textile workers in the U.S. industry than any time since 1939. The industry is operating at 78 percent of capacity and that number would be only 70 percent if you were to consider the capacity which existed only a few years ago. In 1985 we estimate that the U.S. textile industry will consume about 9.5 billion pounds of fiber, down from 11 billion a year ago.

Mr. Chairman, if the U.S. textile industry is to survive in its present form significant and far reaching measures are needed. We are in a crisis and decisive action must be taken without delay.

As you know, the U.S. government has for more than 20 years recognized the special nature of international trade in textiles and apparel. More importantly, most of the important trading countries of the world have also recognized that trade in textiles and apparel can pose special, serious problems for domestic industries in the develped countries. That is why there is a Multifiber Arrangement and that is why that arrangement exists outside of GATT rules by permitting discriminatory quotas and no compensation.

Textile and apparel industries can be destroyed by floods of low-wage imports from practically any developing country in the world. The nature of the production process is such that a developing country can very quickly become competitive in the production of apparel and create hugh quantities of low-cost exports. We have witnessed recently countries like Mauritius, Sri Lanka, the Maldive Islands, and now Bangladesh become major suppliers of certain apparel products. There needs only to be cheap and abundant labor, which most developing countries have, and the entrepreneurial and organizational skills which many of the large textile exporters in the Far East provide. Little capital investment is needed and almost overnight a country can become a major player in world trade in textiles and apparel. In addition, many countries when not competitive maintain their international competitiveness through export subsidies because their primary objective is not to earn a profit but to earn foreign exchange in order to repay their very large foreign debts.

Mr. Chairman, unless some drastic measures are taken without delay, almost 40 percent of the U.S. textile mill products industry is at risk along with the entire U.S. garment manufacturing industry and much of the domestic fiber industry, including cotton producers, wool growers and synthetic fiber manufacturers. The industry, and here I speak of the entire industry from fibers through apparel, has for the past four or five years been struggling to overcome the import problem. We have not had much success in getting government action to deal with this problem. The key point is that we do not believe that we are a sunset industry that must be sacrificed on the altar of the naive notion of free trade.

America's textile mills are the most modern and productive in the world. And we got that way by investing over 85 percent of our retained cash flow each year, by installing only the most modern equipment and by continuing to improve our products through research and development. However, all of that is being threatened by the import surge and unless something is done in order to provide a greater sense of certainty that the textile import program will work continued investment is uncertain. It is very difficult for textile mill executives to justify capital investment to boards of directors who ask "well, is it likely that we will have a market for these goods in the future in the face of increasing imports?" The answer is becoming with increasing frequency "I'm not sure." Once that decision becomes widespread a large part of the U.S. textile industry is going to become less competitive and will eventually disappear. Each of my colleagues will, I'm sure, tell you a similar story because all sectors of our industry have made huge investments and need to continue to make such investments if they are to survive.

Mr. Chairman, we have tried to deal with this problems on our own. We have tried to push the Administration to implement its bilateral agreements more effectively and to use every measure that is available under existing law and international agreement to try to curb the flood of imports. We have worked to get better controls at our borders so that fraudulent imports do not add to the damage already being caused by those which enter legally. That situation has improved thanks to the increased efforts of the U.S. Customs Service. We have also taken legal actions wherever we believe unfair trade practices exist and we feel that we might be successful in seeking a remedy. Many of our efforts have been frustrated however, in that area.

Finally, Mr. Chairman, as a last resort we have looked to the Congress to find a legislative solution to this problem. We have worked with the Congress to develop legislation which has been recently introduced as the Textile and Apparel Trade Enforcement Act of 1985. In the House of Representatives that legislation is H.R. 1562 and in the Senate it is S. 680. We are convinced that if enacted, this legislation will curb the flood of imports and create a climate of more orderly trade which will provide for the increased certainty and improved investment climate needed by the fiber, textile and apparel industry. With that improved investment climate, all sectors of this industry will be able to invest, to continue to improve their productivity and to survive as an essential industry in this country.

The legislation seeks the realization of the objectives of the Multifiber Arrangement. It will provide orderly trade in textiles and apparel—something we have not had for the last four or five years. It will permit imports to grow. In fact, each year under the legislation imports will claim an ever larger share of U.S. market—but in an orderly manner. The legislation will also treat the smaller exporting countries more favorably than the larger exporting countries. All of these are among the objectives of the Multifiber Arrangement.

We have heard arguments that our textile problem is an exchange rate problem and that the flood of imports and our declining exports are due to an overvalued dollar. Mr. Chairman, that is only partly correct. The exports of the U.S. textile industry, and it is important to realize that for many years until 1981 we exported more textile mill products than we imported, have declined by about one half in quantity terms in the last four years. This we believe is almost totally due to the overvalued dollar as witnessed by the tremendous declines in our shipments to Canada and Western Europe against whom the dollar has appreciated substantially. However, our import problem cannot be attributed to an overvalued dollar. We have done some detailed analysis which we will be happy to share with the Committee as to the impact of the dollar on textile and apparel imports. Our analysis shows that imports from Canada and Western Europe appear to be related to the appreciation of the dollar. However, practically all imports of apparel, as well as imports of textiles and textile products from most of the other countries of the world have been largely unaffected by the appreciation of the dollar. Thus, our problem will not be solved by any measures which weaken the dollar.

Mr. Chairman, I would like to address another argument which is often made against our efforts to obtain more orderly trade in textiles and apparel. And that is the consumer argument which says that U.S. consumers will be much better off if there are more liberal quotas or no quotas on textile and apparel imports. That argument has most recently appeared in a study by the Federal Trade Commission which says that import quotas on shipments from Hong Kong are costing the U.S. economy around $34,000 per textile worker affected. Mr. Chairman, that is not an accurate evaluation of the cost and benefits involved. We have analyzed the Federal Trade Commission's report and have used the same approach which they used but have made more accurate assumptions in certain key places. We will be happy to submit our analysis to you. It shows that the benefits of quota removal per worker affected is not $34,000 but about $12,000. Now one might say that is still a rather significant cost of maintaining quotas with Hong Kong. However, it is important to realize that a U.S. textile worker at the time of that study was paid approximately $12,000. This means that a U.S. textile or apparel worker was contributing productive output for the benefit of this economy at an amount roughly equal to the cost of maintaining the quotas with Hong Kong. Therefore, there is no advantage in removing the quotas. Quite the contrary, there are additional factors which neither the FTC study nor our analysis considers in maintaining a viable domestic industry.

There is abundant other evidence that whatever products or countries are involved, the consumer is not the beneficiary of lower priced imports. The Marketing Research Corporation of America has shown that many categories of women's clothes on average are generally priced higher, I repeat higher, than those domestically produced and domestically produced men's and boys apparel were only slightly more expensive than imports. Historically, U.S. textile mill products have been moving at about one-half the rate of the wholesale price index. In addition, domestic apparel has been moved at a rate also roughly half of the consumer price index. I would like to also quote a Vice President of one of the large chains of department stores on whether or not the consumer will benefit from lower prices caused by the appreciation of the dollar. And I quote "'I can tell you flat out that import prices aren't going to come down." Price decreases for importers and retailers won't be passed to the consumer, he adds. "This is a margin opportunity for both importers and retailers.'" Mr. chairman, as you can see, the domestic textile industry has tried to find remedies to the import problem. We have also done the kinds of things needed to maintain our competitiveness but we are still being damaged by imports and can find no solution other than in legislation. Thank you for the opportunity to appear before this committee and I will be happy to answer any questions now or at the conclusion of remarks of by the members of this panel. Thank you.

Chairman GIBBONS. Well, Mr. Martin, before we go any further, let me say I feel that way when people talk about taxpayers. They kind of act like Members of Congress don't pay taxes, so I know what you're talking about.

Mr. MARTIN. I understand that you do. Thank you, sir.

Chairman GIBBONS. I can assure you that we do. I just did yesterday.

Let's see. Our next witness is Mr. Chaikin.

STATEMENT OF SOL C. CHAIKIN, PRESIDENT, INTERNATIONAL LADIES' GARMENT WORKERS' UNION, AFL-CIO

Mr. CHAIKIN. Thank you very much, Mr. Congressman.

My name is Sol C. Chaikin, and I'm president of the International Ladies' Garment Workers' Union. I'm appearing today as a part of this panel in support of H.R. 1562. We have submitted to the committee a brief, which I hope that each member will read and absorb, so I won't take the time to read from it but make some comments as I go along and hope to limit my presentation to just a few minutes.

We've heard a great deal of testimony earlier today, but I would like very briefly to describe the nature of the apparel industry, and more specifically the ladies' and children's apparel industry, where we represent hundreds of thousands of workers.

This is an industry that's made up, basically, of small entrepreneurs, although we do enjoy the presence of some major, public companies. The thousands of employers who are in the industry and who have survived, reduced from almost 30,000 to about half that number, are extraordinarily competitive. They are very aggressive in their pricing policies; they are at each other's throats for a share of the consumer's dollar. And that, I submit, is the actual reason why, over the last 10 years, the price of ladies' and children's apparel has risen at hardly half the rate of increase of the general Consumer Price Index.

Let me suggest to you that these people use the state-of-the-art technology. They're not unable to compete with products that are made in other lands simply because they are fat and lazy, because they don't want to spend a few dollars to buy a machine of advanced technology, or because they don't make styles or use the proper fabrics that consumers in America would like to see in their apparel. The fact is that our employers create the fashions, and create the styles, and make the patterns of the day. And it's those styles, the product of the creativity of the minds of the employer group in our industry, that is transported overseas. Our styles and fashions are into those factories that make apparel overseas specifically for the United States and Canadian markets and, indeed, for the European Community market as well, because the size ranges are very similar in these areas.

This is not a case of American consumers finding styles or fashions from Sri Lanka, Hong Kong, South Korea, or the People's Republic of China and deciding that that's the kind of apparel that they would like to wear, and so demanding imported apparel because of the uniqueness of those styles or fashions. It is quite the opposite. It is our styles, our creativity, our fashions, our patterns, our size ranges that are exported from those nations.

Now, I would like to say also that, stitch for stitch, operation for operation, the quality of the factories of our employers is as good or better than the quality of imported products. And I say it very specifically. Quality is also a function of cost. You can get improved quality if you want to spend a little more making the item. But the basic quality, stitch for stitch, that goes into an item of ladies' and children's apparel made here in the United States, is easily the peer, the equal of the quality that goes into overseas production.

Well, then, who are the workers? I have given you a thumbnail description of the employers in the industry—tough, hard-hitting, up to date, using state-of-the-art technology, knowing how to manage their business, highly competitive with each other, making very little profit as a percentage of equity and of sales—who are the workers? And here, I think I can speak for workers in the industry generally, whether they are members of a union or not. The wages in the industry are among the very lowest of all industrial workers in the United States. And I would say that the average hourly wage right across the country, North, South, East, and West, would be considerably less than $6 per hour, somewhat closer to $5.75—$5.60 to $5.75, against an average hourly industrial wages in the country across all industries of somewhere about $9.40 an hour. And the fringe benefits in the textile and apparel industry, particularly in the ladies' apparel and children's apparel industry, are quite minimal, so that the approximate $6 wage is no more than a totality of a $7.50 or $8 wage across the board; 15 to 20 percent of our work force is in the major cities. About 80 to 85 percent of our work force are in small towns and small communities spread across the entire United States. There's hardly a State of the United States, perhaps with the exception of Alaska, which doesn't have an appreciable work force made up of workers in textiles, apparel, and clothing production.

In the core of the large cities, where a minority of our workers work, the large group of workers is made up of blacks, and Hispanics, and Asians, and new immigrants because the apparel industry, traditionally, has been a threshold industrial opportunity for workers who have come to our shores and for workers who have come in from small, suburban communities or rural communities to live in the big cities. The small communities, where 80 percent of our members reside, right across the United States, reflect the population demographics across the country, whatever the backgrounds of the workers generally are, in the States to the South and Northeast, Midwest to the Far West and Southwest. These many ethnic and racial groups are all represented within the apparel and children's industry.

Now, when these factories close—and here I want to make a point that is quite at variance with the points that some of your witnesses have made, and that relates to import penetration. There is absolutely no question that the import penetration into the ladies' and children's apparel industry now exceeds 50 percent. That means that 50 percent and more of the value of all of the ladies' and children's apparel sold over the counter in the United States emanates from overseas, and the largest proportion of those garments come from countries where wage rates are incomparable to the wage rates paid in the United States.

And I think it's important to compare a $6 an hour an average earning and less in the United States, with wages of 16 cents an hour in the People's Republic of China, of slightly over $1 an hour in Hong Kong, of somewhat around 53 cents an hour in South Korea, and 57 cents ranging up to 60 cents an hour in Taiwan, and $5 a week for a week's work in Sri Lanka. And thereby hangs the tale. If we use state-of-the-art technology, if the human beings employed in the United States are as productive, and trainable, and educable as human beings who work in countries overseas, if there is parity in styles and size ranges--if all the other things are reasonably equal, the only variable is the wage cost. Our American workers make a tough living, a poor living, perhaps, but one which give them an opportunity for self-respect, an opportunity to raise their families, an opportunity for some measure of dignity because of their employment and the contributions they make to the American economy.

That being the case, it is impossible to compete against products that have been flooding in from overseas. And if you were to dispute my assertion that the import penetration is of such a large character, all you need do, as we have done across the country, is to go into the large chainstores, of the department stores, of the discount houses, and just walk through the racks of ladies' and children's clothing and you will get a lesson in geography. There's hardly a country the world over that hasn't got the capacity to make ladies' and children's apparel and which has not taken advantage of the fact that we have practically an open trading regime for those items to flood in. And imports flood in because they offer a tremendous profit opportunity for the people in the merchandising industry. Their preference, which they have exhibited time after time, is to bring in imported apparel because their profit margins and their markup opportunities are so extraordinarily high in comparison with what they are able to do with domestic-made clothing.

The loss of over 800,000 jobs in the past and the threatened loss of hundreds of thousands more jobs is an unbearable domestic burden, and it falls most heavily on those in our society who have the least. The passage of this bill will not serve to recreate the kind of circumstance which we enjoyed in this country 10 or 15 years ago, with 2.5 million workers in textiles, apparel, and clothing and the largest single segment of our industrial society at work, attempting to make a living and to make their contributions to the community. This bill will stabilize the situation and perhaps afford employers in the industry and workers who still remain in the industry an opportunity to be contributing, an opportunity for supporting themselves, and an opportunity to provide the textiles, apparel, and clothing which our American community needs.

Thank you very much, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF SOL C. CHAIKIN, PRESIDENT, INTERNATIONAL LADIES' GARMENT WORKERS' UNION, AFL-CIO

My name is Sol C. Chaikin. I am President of the International Ladies' Garment Workers' Union. Our Union has 250,000 members employed in the production of women's and children's apparel. The ILGWU is pleased to have this opportunity to discuss the loss of domestic employment caused by the continuing surge of imports and the inept administration of our government's professed textile and apparel trade policies.

This is a critical year for the future of our nation's apparel and textile industries. Although it is often alleged that our industry is the most protected in the U.S., the rapid acceleration in apparel imports in the last four years and the dangerously high import penetration level prove otherwise. As administered by the U.S. government, the Multifiber Arrangement (MFA) quota system does not fulfill its intended objective of limiting the growth of aggregate import volume and averting serious market disruption.

In response to the deluge of imports, the Textile and Apparel Trade Enforcement Act has been introduced in both the House (H.R. 1562) and the Senate (S. 680) in an effort to restore order to the U.S. trade situation and to prevent further harm to the domestic industry. This much needed legislation is designed to serve the twin objectives of MFA, protection against market disruption and orderly growth for the exports of truly developing countries.

Both objectives are served by establishing more realistic import levels and growth rates for shipments from the major exporting countries. The bill reduces the present devastating level of import penetration and thereafter provides for aggregate import growth that is more in line with the rate of domestic market growth.

Under this legislation, the overwhelming domination of our imports by a handful of countries would be reduced to permit a more equitable sharing among truly developing countries. Many of the present major textile and apparel exporting countries have graduated to newly industrialized country status. They are now actively engaged in the entire range of more sophisticated industrial activity and no longer require special incentives. If we are to assist the truly developing countries by allowing their exports to increase, shipments from the major countries must be reduced.

This bill would also include in the program fibers not presently controlled and provide for the licensing of imports by the U.S. government. Licensing is needed to insure effective enforcement, especially to limit fraud and transshipment.

The Act provides special treatment for the countries covered by the Caribbean Basin Initiative, and for Mexico, by exempting them from the tighter growth limits applicable to "major exporting countries". We support this provision because the bill specifically spells out a decrease in shipments from the newly industrialized nations, which, in turn, would provide for our neighbors to the south as well as other truly developing nations and for new starters.

Although there are, as there must be, differences within the domestic industry over specific aspects of the trade question, the differences that may exist are far outweighed by our common interests and unity of purpose.

As a nation we must come to grips with the question of whether or not we will continue to have a viable domestic textile and apparel complex which, as the employer of two million workers, is our nation's largest single industrial sector. World apparel production is expanding far beyond the growth of market potential. Many countries—the more industialized as well as the less developed—have set their sights on the easily penetrated $100-plus billion U.S. apparel market. FMA, our only line of defense against the chaotic overexpansion that has characterized import growth, has turned into a sieve in the face of a flood of imports.

We do other countries no favor by allowing indiscriminate access to the U.S. market because, when many countries are similarly inclined, the result is even more unsatisfactory. Not only is the domestic industry jeopardized, but a handful of major exporting countries dominate the U.S. market to the exclusion of others. At least three of these countries can no longer be classified as developing nations. With each passing year, they have been permitted to sharply increase their shipments to the U.S. As the U.S. market becomes even more attractive to them, they fight more vigorously to protect their position, often at the expense of less developed nations that are more and more frozen out.

The present international trade picture in apparel bears no resemblance to the conditions prevailing or anticipated at the time MFA was put in place more than a decade ago. A major overhaul in our administration of imports under MFA is certainly past due. We should examine as a matter of high priority where our administration of the MFA is taking us and develop a more comprehensive and workable government MFA program that will avert a domestic disaster.

The MFA, as I said earlier, was developed to serve two objectives: (1) to facilitate the orderly growth of apparel and textile imports from developing countries, and (2) at the same time, to prevent market disruption in apparel and textiles in importing countries. Neither of these objectives is served by the existing trade regulation program.

Market disruption is considered to be a situation where imports of a given item significantly displace production in the importing country. As long as the size of the domestic market continues to increase, the level of imports may increase without disrupting domestic production, provided that the import increase is not in excess of market growth.

In recognition of the fact that market growth in our country is moderate at best, and that allowance must be made for particularly sensitive product areas where import penetration is high, we accepted in 1981, an MFA renewal that provided for six percent annual import growth for most exporting countries and for a lower growth rate for imports of sensitive products from major exporting countries. However, the MFA objective of orderly growth of apparel imports without market disruption has not been achieved.

Since MFA was first instituted, the import share of the domestic apparel market has climbed from 21 percent in 1973, to 50 percent in 1984. In 1983, total cotton, wool and man-made fiber apparel imports grew by 15.1 percent, while the domestic market grew by only 6.8 percent. Last year, the onslaught worsened as total imports increased 21.3 percent, and domestic consumption grew but 5.9 percent. For items of women's and children's clothing alone, imports grew 20.8 percent in 1983, and 19.9 percent in 1984. Taken together, textile and apparel import growth has averaged 19 percent a year in each year since 1981.

The domestic market growth of six to seven percent recorded in the past two years has been highly unusual and is not expected to continue in 1985 because of the tremendous inventory overhang accumulated in the last half of 1984. Women's Wear Daily recently noted "the continuing worry that the American retail market could nosedive." (March 19, 1985). Over the past ten years, domestic apparel and textile consumption has grown at an average of between one and two percent a year. Imports, on the other hand, have been increasing many times faster, with double-digit growth rates all too common.

Import penetration has reached unacceptable levels in numerous major items of women's apparel. Imports account for two-thirds or more of domestic consumption of sweaters, cotton coats, and many types of blouses and knit shirts. Many other product areas are also marked by extraordinarily high import penetration, including brassieres, rainwear, and cotton slacks and skirts. Other product lines, such as dresses, playsuits and man-made fiber nightwear and underwear, where imports traditionally played a less significant role, have experienced astronomical import surges of 40 to 50 percent or more annually in the last two years. In short, the entire spectrum of women's apparel has been seriously undermined by an unrelenting wave of imported goods.

The import growth data cited above are denominated in square-yard-equivalent (SYE) of cloth, the physical unit of measurement. However, when apparel imports are considered in monetary value terms, the rate of increase is even more staggering. Last year, the dollar value increase in total apparel imports was 32 percent, compared to the 21 percent SYE increase. The primary source of the disproportionate dollar value increase is the growing sophistication of apparel production in the major exporting countries. The Taiwanese government, for example, has been aggressively promoting the production of higher value apparel items. Last year, while

Taiwanese shipments to the U.S. increased eight percent in SYE, in value terms the increase was 22 percent.

Such a development was scarcely envisioned by the drafters of the MFA in 1973, or in its two subsequent renewals. It is all the more remarkable in light of the dramatic appreciation in the foreign exchange value of the dollar which should have reduced the market value of imports.

Our mammoth deficit in textile and apparel trade is a major component of the nation's total trade deficit. The U.S. deficit in apparel and textile trade in 1984 was $16.2 billion, 13 percent of the record high total merchandise trade deficit.

As administered, MFA has failed to prevent market disruption. Production worker employment in the knit and woven apparel industry has dropped from 1,243,000 in 1973, to 972,000 in 1984. This 22 percent decline has been largely due to increased imports.

Despite the statements by the Chief U.S. Textile Negotiator about the apparel industry "sharing in the U.S. economic recovery", our industry's recovery was significantly thwarted by surging imports. Production worker employment in women's and children's clothing in 1984 was still more than six percent below 1981 levels, and nearly 11 percent below the level just five years ago.

The very slight recovery from the depths of the last recession that domestic apparel production experienced in 1983 and early 1984 was reversed in the second half of last year. For the year as a whole, 1984 production was below 1983 levels in eight of nine women's and children's apparel product lines, with the declines ranging from five to 24 percent. In women's suits, the only product area where 1984 production exceeded that of 1983, production was still only half its 1979 level. The unemployment rate in apparel averaged 10.8 percent last year, one-and-a-half times the overall unemployment rate.

It is also necessary to put to rest a disturbing misperception advanced recently by the Council of Economic Advisors in the 1985 Economic Report of the President. In noting with disfavor the high proportion of new establishments in our industry (p. 117), the CEA apparently feels that MFA was intended to phase out garment production in the U.S. However, MFA was not "a temporary expedient" (p. 125). Rather, to reiterate, its purpose was to allow developing nations to share in the market growth of developed countries without causing market disruption.

Given the constant business turnover in the apparel industry, a high proportion of new establishments is a characteristic feature of the industry, not the result of "protected" prices and profits. In addition to the general ease of entry, frequent business reorganization for fashion, partnership or other reasons is standard fare in the garment industry. In many cases, the only thing new about a "new" establishment is the name; the management, workers and facilities are often nearly identical to that of an "old" establishment.

Although four years ago President Reagan stated that it should be the government's policy to relate aggregate apparel and textile import growth to domestic market growth, his Administration has presided over a situation where imports have been growing much faster. If 1984 trends continue—20 percent import growth, even along with the unusually high domestic market growth rate of six percent—by 1988, import penetration would exceed 80 percent. Such a development would cost many additional hundreds of thousands of jobs in the domestic apparel industry alone, as well as cause additional job loss in textile, fiber and other supplying industries.

While the garment industry shares many problems with other industries, its simple technology, small capital requirements and dependence on relatively low-skilled labor make it particularly vulnerable to imports from low-wage countries. Recognition of this acute vulnerability to low-cost imports was an important justification for the special treatment that MFA accorded to the apparel and textile industries under the auspices of the General Agreement on Tariffs and Trade.

There is no economic rationale for relinquishing the livelihoods of hundreds of thousands of garment and textile workers for the sake of greater retailers' and importers' profits. Apparel produced in countries with abysmally low living standards and virtually no workers' rights is no bargain for the American people.

Such low-cost imports threaten our living standards by destroying badly needed employment opportunities for the U.S. apparel workforce. The workers in our industry are 85 percent female, many of them being sole supporters of their families. In the major cities, these workers are largely minorities—Blacks, Hispanics, Asians—and new immigrants. Throughout the rest of the country, where more than two-thirds of the workforce is located, the industry is concentrated in small towns, often one-factory towns. When a shop closes down in such areas, there is literally no other employment opportunity.

Over sixty percent of apparel imports now originate in just four countries: Hong Kong with an applicable wage rate of $1.18 per hour; Taiwan at $0.57; South Korea, $0.63; and China, where a garment worker earns the U.S. equivalent of $0.16 per hour. Wages are similarly low in other Asian countries, such as Indonesia, Malaysia, Sri Lanka, Thailand and the Philippines, that have boosted their garment shipments to the U.S.

Despite the grand assumptions of theoretical economists, the use of low-wage labor abroad in garment production does not translate into lower prices paid by consumers. Retailers acknowledge they prefer to sell imported garments because of the higher markup taken on imports than on domestically produced goods. For example, when asked by *Women's Wear Daily* whether retailers are really buying markups when they purchase imports, Allied Stores president Thomas M. Macioce responded, "Sure, we are indeed buying better markup, but that's our job. We would be delighted to buy only American-made goods if we could make the same type of markup".

J. Hart Lyons, the Vice President of the Carter Hawley Hale retail chain, is quoted in a 1981 article in *The Wall Street Journal* responding to the observation that appreciation of the dollar should lower import prices, "I can tell you flat out that import prices aren't going to come down. . . . This is a margin opportunity for both importers and retailers."

The trade magazine *Textile Asia* recently reported: "Thomas N. Roboz, the chairman of Stanwood Corporation, a maker of clothing primarily for large chain stores, says that retailers are not passing on to their customers the low prices they pay for imported items".

An article in *The Wall Street Journal* two weeks ago (March 19, 1985) on the Far East buying trip of a major retailing chain spoke of the $400 bottles of wine consumed by buyers and local manufacturer's representatives. The article wryly observed, "retailers enjoy a handsome profit" by buying apparel in Asia. And no wonder, since the sewing machine operators there are paid no more than the equivalent of four bottles of wine for a year's labor. Invariably, imported garments retail for the same price as U.S. produced items of precisely the same design and style, with the difference padding someone's profits.

The administration of MFA is wholly inadequate, given the proliferation of foreign supply sources and the diversification of production in the major exporting countries. Our piecemeal administrative approach to regulating imports under MFA lies at the root of the problem. Not all countries and products are subject to restraint. If quotas for one country are filled, importers arrange for production and imports from a country with unfilled quota or from one of the many countries not yet under control. If a given category is filled, production is shifted to categories not yet filled.

As a result of the loose administrative approach to MFA, considerable entrepreneurial energy is channeled into quota circumvention. To quote *The Wall Street Journal*, "hunting for loopholes in (apparel) import regulations has become an industry pastime". (August 8, 1984).

Circumvention is not always the problem, however, because in many instances the import ceilings negotiated by our government are excessively generous and are permitted to increase, usually by six percent or more a year. Even where quota growth is kept under six percent, incredibly generous initial restraint levels are permitted, thus providing extremely high base levels from which to subsequently expand by allegedly reasonable growth rates. A recently announced agreement with China provides at least two all too typical illustrations of the Administration's proclivity to establish intolerably high ceilings.

In 1982, imports of cotton underwear from China totalled 144,000 dozen. While imports rose rapidly in 1983, the government did not act until shipments reached 710,000 dozen, five times the 1982 level. Consultations with the Chinese were requested in October of 1983 and, pending agreement, a limit of 740,000 dozen was set for 1984. It was recently announced that agreement had been reached on quota levels for 1985 through 1987. According to Wu Shudong of the Chinese Embassy, the 1985 level was set at 1,254,000 dozen, and is permitted to increase by 4.5 percent a year in each of 1986 and 1987. (*Women's Wear Daily*, March 12, 1985)

In this case, the new 1985 import limit was raised by an extraordinary 69 percent from the interim 1984 quota level. While the growth rate in 1986 and 1987 is only 4.5 percent annually, the gargantuan increase perpetrated between 1984 and 1985 makes a mockery of the MFA control effort.

A similar MFA travesty was acted out regarding imports of cotton dresses from China. Shipments had doubled in the first half of 1983 over the same period a year earlier. Consultations were requested and an interim quota for 1984 set at 72,300 dozen. Yet, the final agreement reached recently, as reported by the Chinese, sets the 1985 restraint level 64 percent above the 1984 level, with three percent annual growth permitted for each of the next two years. The low growth factor should not obscure the real damage inflicted in allowing the base restraint level to rise to an extraordinarily high level.

The fundamental problem is that, under present U.S. government implementation of the MFA, the government's focus seems to be on limiting quota growth rather than restraining the volume of import shipments. The task of restraining imports is transformed into a charade if the effective permissible import growth is far beyond the growth limits considered consistent with the avoidance of market disruption.

The bilateral agreements build in a number of provisions that allow quota levels to be exceeded, provided that a corresponding reduction in SYE is made in one or more other categories. Quota may also be borrowed from future years, and unused quota carried over. Moreover, quota ceilings continue to increase even if shipments fall well below the restraint levels. These provisions all heighten the potential for sudden large increases in shipments as foreign production is geared to fashion and marketing changes.

Additionally, the effective implementation of MFA has been hampered by an excessively narrow view of the market disruption criteria. Evidence of market disruption in a particular product area should take into account that producers are not so narrowly specialized, but rather are, at one time or another, engaged in a variety of product types and styles. For example, an apparel shop may produce cotton dresses in the spring but rayon (a man-made fiber) dresses in the summer and yet a third type in the fall or winter. If imports are allowed to grow excessively, a domestic firm that normally switches product in response to fashion or seasonal changes may be precluded from doing so and its survival jeopardized.

Moreover, the prosperity of U.S.-based apparel firms should not necessarily be taken as evidence of the absence of market disruption. For example, a manufacturer may prosper because it begins to import apparel yet such a development certainly does not reflect a healthy domestic industry. Production worker employment and total hours worked are more reliable indicators of domestic production activity.

Two recent Executive Branch actions, while necessary, only nibble at the edge of the apparel import problem. The December 16, 1983, Presidential statement tightened procedures for triggering negotiations to establish limits on previously unrestricted shipments. Although many "calls" have resulted by the time limits are put in place, as the above examples document, the import level has soared and is then often increased further in bilateral consultations.

Secondly, the Customs Service announced revised "rules-of-origin" last year in response to the spreading practice of transshipping garment parts to evade quota. To get around one country's quotas, partially finished garments were being transferred to other countries with open quota where they were completed and marked to show the country performing minor operations as the country of origin. As initially announced, the new regulations suitably addressed the problem of knit goods transshipment but created a loophole with regard to cut and sew garments. The proposed rules would have made cutting, which represents a small portion of labor cost, the basis for country-of-origin determination. Fortunately, the recently issued revised regulations have, apparently, closed the potentially damaging loopholes in the regulations.

Despite the outcry from retailers and importers, neither the December 16th action nor the revised rules-of-origin have or can be expected to slow the import surge for long. In fact, the Customs Service action amounts to a curb on only one of many types of deliberate attempts to circumvent quotas. As *The Wall Street Journal* put it last August, "retailers have become creative Marco Polos, roving the world for suppliers in countries like Sri Lanka and Bangladesh where apparel exports are in their infancy and haven't been hit with many quotas". A more encompassing approach is needed to assert effective control.

Additionally, the MFA only pertains to textile and apparel items chiefly made of cotton, wool or man-made fibers. In recent years there has been a disproportionate increase in imports made of such non-MFA, uncontrolled fibers as ramie, silk and linen. Moreover, ingenious fabric blends have been developed in an effort to shift goods from one fiber group to another in order to get around quotas. For example, largely as a result of this loophole, the number of imported sweaters made with blends of ramie, silk or linen with cotton and other fibers increased 278 percent in 1984 to over 54 million units.

Imports of non-MFA fiber apparel have steadily advanced in recent years. Women's and children's apparel imports of non-MFA fiber products that are beyond control at present increased by 62 percent in value in 1983, and by 149 percent in

1984. Relative to the total value of women's and children's apparel imports, non-MFA fiber products increased from 4 percent in 1980, to 14 percent in 1984.

The tremendous rise in the value of the U.S. dollar relative to the value of foreign currencies has added to the apparel import influx and has led to substantial increases in imports from a number of Western European countries. Apparel exports have never been of great significance for the U.S. industry, but even that relatively small volume has declined precipitously with the appreciation of the dollar.

Exports of apparel have dropped by 35 percent since 1981. More than half of U.S. apparel exports involve Item 807 garment parts, which eventually come back to the U.S. as finished garments. If Item 807 components are excluded from exports, the apparel export decline since 1981 is between 60 and 70 percent. In 1984, apparel exports minus Item 807 shipments were ony one-fiftieth of imports.

Whatever restraint mechanism is implemented must be accompanied by vigorous Customs Service inspection of import shipments and enforcement of applicable trade provisions. The ever-rising volume of apparel imports has been marked by an avalanche of fraudulent practices designed to evade quota, duty and other requirements.

Customs inspectors encounter such practices as illegal products, fiber and country-of-origin designation, the underreporting of shipment weight and/or value and trademark violations. It is imperative that the Customs Service budget and enforcement staff be increased and not cut as proposed by the Administration. Budget cuts in this area are self-defeating. It is estimated that if an additional $50 million is spent for Customs inspectors, import specialists and special agents, a net yield to the U.S. Treasury of more than one billion dollars would be produced—amounting to more than a twenty-fold return. [Estimate from testimony before the Subcommittee on Commerce, Consumer and Monetary Affairs of the House Committee on Government Operations, March 6, 1985.]

We must address the severe apparel and textile import situation before it is too late. Our industry employs women, minorities, immigrants and so many others for whom few alternative employment opportunities exist. The present U.S. government approach to implementing MFA has been made obsolete—if it ever truly reflected domestic needs—by vast changes in world apparel and textile production and procurement. We urge you to give careful consideration to the current effort to develop a more workable approach to international trade in textiles and apparel.

Thank you.

Chairman GIBBONS. Thank you, Mr. Chaikin.

When you talked about quality, I couldn't help but think about the fine ladies that represent your industry here on the Hill. I see a couple of them in the room, back there smiling. We've known them for years. They are very quality people.

Mr. CHAIKIN. Thank you. We appreciate those comments.

Chairman GIBBONS. Mr. Finley?

STATEMENT OF MURRAY H. FINLEY, PRESIDENT, AMALGAMATED CLOTHING & TEXTILE WORKERS UNION, AFL-CIO

Mr. FINLEY. Thank you, Mr. Chairman.

My name is Murray Finley; I'm the President of the Amalgamated Clothing & Textile Workers Union.

I'm not going to repeat the statement that I've submitted here, Mr. Chairman, nor will I repeat some of the comments that either Mr. Martin or Mr. Chaikin made. I subscribe to them totally. When Mr. Chaikin describes the workers in ladies' apparel, it's identical with the workers who are engaged in men's apparel and in the textile industries.

Let me make a few observations, if you will, part of which is based upon preparation and part of which is based upon listening to the extensive testimony that has been given this morning, and it may help—at least from my point of view, you can see where we're coming from.

Let me quote a statement which was just made March 25. We opened our negotiations on one of our major contracts; that's in the men's tailoring clothing industry, the men's and boy's suits, sport coats, and so on. And we had the opening of that negotiation on March 25th of this year, Mr. Chairman. And the negotiators for the industry are the principals of the major companies; these are not the hired staff and attorneys and so on. Let me quote you what was said by the principal negotiator, who is the vice chairman of one of the largest companies in this industry in the United States, and I'll just give a couple quotes. He says, "The employers here are the survivors. Others have gone out of business and bankrupt. You know that a dozen years ago our employment was two and a half times what it is today," and that is tragically so.

And then he goes on later to say, "And if domestic conditions are not bad enough, the import situation is making things even worse. The latest Government figures through October 1984 show that imports of suits and sport coats jumped 50 percent in units over the previous year, to an astounding 12 million units for only this partial year."

Then he goes on to say, "If this is happening with all the import controls and quotas now existing, what in the world will happen without them in the future?"

I cite this because this was a legitimate, factual statement from the head of a very major company, employing many thousands of workers. Later on Mr. Gregg will state in much more detail, but let me just state here, that one of the plants of AVTEX, located in Meadville, PA, will close this April 26, and there will be 700 more American workers out of jobs as a result of imports. But Mr. Gregg will enhance and explain that one in greater detail.

I could recite horror stories case after case, Mr. Chairman, but I do this just to put it in kind of a rather statistical outline. We have heard a lot of testimony that part of the problem with imports, and the cost to American consumers of imports, and we heard figures that varied from God knows how many billions of dollars and how much. Now, these are all fine, and the models and the computer and the academic basis—a few weeks ago, there was a press conference on the introduction of H.R. 1562, and Senator Heinz of Pennsylvania presented an exhibit, and I'd like to show this committee that exhibit. We actually got it for him.

These are four shirts, Mr. Chairman. Those four shirts, identical shirts, all bear the label "Arnie," and you see the costs there, varying from the U.S.-made to the one made in Hong Kong, the one made in Guyana, and the one in Colombia. Every one of those shirts are priced for $18. Now, the ones from the United States happen to be made in Andalusia, AL. The members of our union are the people who made the American shirts. It's a very fine, a very large company; it's now about half the size it was. And if anybody's going to tell me what the American consumer is paying for as a result of this, it's the retailer who made the profit. The retailer who buys it at a lower price is keeping that markup. And there you see four identical shirts, the same patterns, the same everything, sold from four different countries at different prices, all sold at the American selling price. That $18 is a legitimate price based upon what it costs for the shirt made in the United States.

So when you talk about what it costs the consumer, the question is, who is getting this? It certainly isn't our member, who is making in Andalusia, AL, under $6 an hour. He's not the one who is getting rich; it is the retailer who is bringing these shirts in, who is keeping this profit.

Let me give you one other case. Recently our negotiators——

Chairman GIBBONS. Excuse me. Could you help me? I can't see those figures very well. I can see the big $18.00 and the $7.50, but on the left-hand column, what are those figures over there? What do they refer to, the $7.50 and the $5.92 and those?

Mr. FINLEY. That's the cost.

Chairman GIBBONS. That's the cost? And that's the margin? I've got you; thank you very much. So the margin goes from $10.50 to $11.65—there's one $12.57 in there.

Mr. FINLEY. There's one $12.57, Mr. Chairman. In every case, the retailer is making a dollar or two dollars more because he buys it from a low wage area. It so happens this is Far East in this case, but the issue is the same. [See also letter from Sears, Roebuck & Co. in material submitted for the record.]

Let me give you one other case. Mr. Imus' group—he wasn't there himself, but the American negotiators were in the Far East in the month of February, negotiating bilateral agreements—one of the countries they visited was Indonesia. In Indonesia, our representatives, the representatives of the ILG, through our contacts with the labor movement were invited to visit the labor movement in that country, and they were taken to a plant making children's wear. And the owner came to them and he said, "I don't understand something. Look, I make this for one of the very major, largest retailers in the United States. Here's the price I get; I get $1.22 for this garment. Out of that $1.22 I have to pay for everything, including 3 percent to somebody in Hong Kong to get the contract, and here's the price of that garment because it's given to me to put on it before I ship it to the United States." And the retail price was $9.20-some for that garment. And he asked our people, "How do you explain this?" And the answer was, "You can call it greed."

I point this out, Mr. Chairman, that when you hear the cost to the consumer, the question you must ask is, who gets that extra cost? And we submit that we can go into case after case; it is the retailer. Not long ago the president of one of the largest department stores in the country—very large in New York City—made a comment in the Sunday business section of the New York Times, saying they're going to increase their imports because they want to increase their markups, their margins. It's as simple as that. And I submit this, that when you hear the cost to the consumer, the question then is, who is making it? Is it the member of the ILG who is making $5, or the amalgamated? Is it the worker in Andalusia who is making a little bit over $5.50 an hour? Or is it someone else who is making that? And I submit it is the retailer who is taking advantage, and that should be put into the hopper, Mr. Chairman, when you talk about the great gains and who gets the benefit, and I can pursue it.

And let me make one other comment because—I don't recall who raised it; maybe it was Mr. Crane or one of the earlier ones—the issue about U.S. tariffs versus Japanese and other countries. A study was made a year and a half ago by the National Planning Association, quantifying both tariff and nontariff barriers to trade. I don't have it with me; I'll submit copies, but it was very illuminating that when you take the tariff and nontariff barriers to trade, U.S. costs are by far the lowest. If you take the Japanese tariffs and quantify their nontariff barriers, or you go around the world and compare the same to United States tariffs, you will find that the cost of going to their country is greater than the cost of going to our country, and I would be glad to submit that study to this committee. And I think, Mr. Crane, you might find that of interest because you were pursuing a point that is a very valid and legitimate point. But I'm always saying that you cannot pinpoint the tariff alone in terms of the costs of doing business across borders. There are other costs. And this study has been made, and I think it comes out clear.

Let me make one final point, Mr. Chairman. The issue has been talked about, what is the position of the unions? What is the position of the industry?—in terms of productivity. And you've seen the productivity figures; those are submitted. But let me tell you what we're doing as a union. We helped set up 4 years ago, following a study that was sponsored by the National Science Foundation and done by former Secretary of Labor John Dunlop and Prof. Fred Abernathy of Harvard, an analysis of the men's apparel industry and where it's going. As a result of that study on how we can become more productive, a tremendous group of the men's apparel manufacturers, of the fiber makers and the textile producers, the leading ones in this country have gotten together and we have put together a not-for-profit research company called the Textile Clothing Technology Corp. We each put in money every year, including our union, and we've been getting funds from the Government—the Commerce Department, for which we're most grateful—and we are in the process of developing the greatest breakthrough in terms of technology, breakthrough in terms of using the computer, the vision system, and use of robots in the manufacture of apparel. That is something that up until now has been limited to the hard goods, where you're taking a rigid thing, but you're now learning to move one operating station to another by automation and use of robots in the manufacturing of apparel. And this men's suit, when it's finally completed, it could affect 25 percent of the operations, and a pair of pants a third, and so forth.

Our union has gone into it fully knowing the result of what will be from this technology. And people say to us, "Why do you do it? It's going to cost jobs." And our people understand that it will not cost jobs, it will save jobs because this is the answer to the whole issue in terms of competition. We are committed to this. When these prototypes have been put into the factory, our members look at it as the answer, not as the threat.

We're committed to this program, and we're at the breakthrough point—hopefully the equipment will be in the market by 1986. But in order for this thing to be successful, Mr. Chairman, there's no way we're going to get the industry to continue to put in its money and to buy the equipment if they don't see an end to the rise in imports down the road, if they see the import penetrations going on at this accelerating level. If they see the import penetration continuing totally uncontrolled, in a sense—you heard the figures of 32 percent, and at the best figures, it will go up 15 percent next year—then there will be no encouragement and no hope for them to do the kind of investment necessary. And our people themselves are going to wonder, what is it that they're doing wrong, Mr. Chairman?

And so, we come to you with a history that has been recited from all the testimony you've heard here. It's a history of a couple million people who work very hard, very diligently—women, minorities, new entrants into the labor market—and they're very low wage for an American, who are working hard and trying to progress and save a kind of an industry, competing against people for the lowest wages around the world, who work under conditions that we wouldn't tolerate in this country; whose governments subsidize and do all kinds of things that are in violation of our trade laws. And we say to you that a bill such as H.R. 1562, which in essence says, look, the rest of the world can have, what, 35, 40 percent of our market, which is as generous as any offer that I could hear of, and the rest of the world can grow with the U.S. market. And the poor countries will have a chance to get a bigger piece of the market than they have now.

We say to you that this is a proposal that's fair to the workers, it's fair to the industry, it's fair to the American consumer, and it's fair to the rest of the world in terms of trading. And to get hung up on protection ignores totally the realities of the situation.

Mr. Chairman, we think—and our members feel so strongly—that H.R. 1562 is a justifiable bill, and we hope that this committee will so decide in its deliberations.

Thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF MURRAY H. FINLEY, PRESIDENT, AMALGAMATED CLOTHING & TEXTILE WORKERS UNION, AFL-CIO

SUMMARY

In January 1985, there were 200,000 fewer workers in the textile/apparel industry than in 1981. These are workers who do not have the kinds of skills that allow them to get other jobs easily. They tend to wind up in lower paying service sector jobs, if they can find jobs at all. Conditions in this industry and the prospects of its workers have never been worse. Because of this situation our members are supporting the Textile and Apparel Trade Enforcement Act of 1985 (H.R. 1562 and S. 680). This legislation will simply provide for the kind of import growth that we were led to believe would be the case when the MFA was renegotiated in 1981.

The current import situation is out of control. There are several reasons why the MFA as currently implemented is not working to control imports effectively. First, the President's directive of December 16, 1983 is being ignored. Second, there is no unity of purpose, or recognition of the importance of the effective operation of the Multifiber Arrangement, among the government agencies that administer this program. Third, by the time the call for negotiations is made, so much time has passed that the country in question has increased its product base by substantial proportions. Fourth, the program takes a back seat to foreign policy objectives. Fifth, there is fundamental and widespread abuse of the program. Sixth, the U.S. imports textiles and apparel from over 100 countries, while maintaining bilateral agreements under the MFA with only 30 countries. Seventh, there is the growing problem with imports of textile products not covered by the MFA. These are the reasons why we need the Textile and Apparel Trade Enforcement Act of 1985. It is a rational and thoughtful approach to orderly trade in textiles and apparel. It will provide what was promised under the MFA but what has not been delivered.

We have the most modern, technologically advanced and productive textile/apparel industry in the world today. Given the current climate of uncertainty brought by this flood of imports, we are concerned that the remarkable efforts being made to modernize, which our union supports and in which we are fully participating, will come to a halt. Our union is actively pursuing the goal of technological advancement. We have developed robotization techniques for application to the garment industry and we see further break-throughs ahead in bringing down costs.

As currently implemented, the Multifiber Arrangement, despite its promise, has clearly been a failure. There is now only one solution: H.R. 1562.

STATEMENT

My name is Murray Finley, and I am President of the Amalgamated Clothing and Textile Workers Union, AFL-CIO, which has a membership of approximately 360,000 workers who produce various items of men's and boys' clothing and textile mill products.

The textile and apparel industry operates in forty-eight states, employs directly about 1.9 million workers, and indirectly another 1 million workers in supporting industries. In January 1985, there were 200,000 fewer workers in the textile/apparel industry than in 1981.

I think you know something about our workers. They are not numbers, they are people with pride, pride in their craft and pride in their industry. They don't have the kinds of skills that allow them to get other jobs easily. They tend to wind up in lower paying service sector jobs—that is if they can find jobs at all. Alternative job opportunities are not easy to come by. Our workers in the textile and apparel industries have been on the firing line of international trade for decades and have borne the brunt, more than those in any other industry, of the tremendous growth in international trade that the world has experienced since World War II. This has occurred despite the existence for more than two decades of multilateral efforts to alleviate the hardships caused by growing imports of textiles and apparel. Conditions in this industry have never been worse and the prospects of its workers, many of whom are our members, have never been bleaker. This industry and its workers face a crisis as they never had before. They appeal to you to help solve the terrible situation they face as a result of lost or reduced earnings, of lost opportunities, and even of lost hope.

Because of this situation, our members are supporting, and approximately one-third of the membership of both the House and Senate have co-sponsored, the Textile and Apparel Trade Enforcement Act of 1985 (H.R. 1562 and S. 680). Given the existence of the Multifiber Arrangement, whose sole purpose is to provide for orderly and nondisruptive increases in imports or textile and apparel products, it might appear to those unfamiliar with the current unprecedented crisis in the textile/apparel industry that we in the industry have gotten greedy, unreasonable or a little of both. But let's look at the record, examine what the MFA is supposed to do, and what has actually happened. Then I ask you to judge our case for H.R. 1562, legislation which will simply provide for the kind of import growth that we were led to believe would be the case when the MFA was renegotiated in 1981.

The current Multifiber Arrangement provides for an annual growth rate of 6 percent for most exporting countries, as well as departures from this norm if negotiated between countries. As a result, even lower growth rates were negotiated for the most import-sensitive categories shipped to us by the major exporting countries. Instead of a 6 percent or lower annual growth rate, since 1980 textile/apparel imports have doubled, averaging an annual growth rate of 19 percent at a time when growth of the domestic market has averaged no more than about one or one-and-a-half percent per year. In one year, 1984 alone, imports increased by 32 percent above the 1983 level, producing imports in such numbers that they now have captured some 50 percent of our apparel market. Thirteen percent—$16.5 billion—of the nation's unprecedented trade deficit in 1984 of $123 billion was textiles and apparel. This is not the definition or orderly and non-disruptive growth and it represents an enormous failure on the part of the Administration to implement the Multifiber Arrangement effectively.

Why the MFA has ceased to be effective

The Multifiber Arrangement acknowledges the need for the industrial countries to maintain their own textile and apparel industries while allowing orderly growth in trade. What has actually happened, however, is that a handful of Asian countries have all but sewn up the U.S. market leaving the truly needy countries out in the cold. It is also getting cold out there for an increasing number of unemployed American textile and apparel workers. The current import situation is completely out of control and this is compounded by the unwillingness of the Executive Branch to administer the Multifiber Arrangement in a timely and effective manner. For example, what happened to the President's directive of December 16, 1983 where the President set out specific crsiteria which would automatically trigger a presumption of market disruption and therefore a call for negotiations? The directive was supposed to ensure that appropriate action regarding market disruption is taken on a more timely and predictable basis. Obviously these criteria are being ignored by those officials who implement the President's trade programs. We estimate, based on the formula of the President's directive of December 1983, that well over 100 calls which meet the criteria have not been made. This represents some 400 million square yard equivalents of imports that remain unrestrained, adding to the disruption of the domestic market. And, it is important to note, the making of calls for consultation is only a first step in a negotiating process that results in a negotiated quota at least 20 percent and sometimes over 100 percent above the call level. We will be providing the Committee with specific examples.

Why is the President's directive being ignored? There are many reasons. First, there is no unity of purpose, or recognition of the importance of the effective operation of the Multifiber Arrangement, among the government agencies that administer this program. The President has apparently failed to communicate his commitment to the agencies. What exists among them is a lot of bickering, but not much consensus, which has disrupted the administration of the program. Often, by the time the call for negotiations is made, so much time has passed that the country in question has been allowed to increase its product base by substantial proportions, to the great detriment of a specific sector of the domestic industry.

Too often the operation of the program takes a back seat to foreign policy objectives. There is a tendency to be more generous in our negotiations with foreign governments than we should be for fear of irritating some foreign country.

And then there is the fundamental and widespread abuse of the program. Last year a Customs' official labeled it a "multi-billion dollar scam by countries around the world to beat U.S. textile quotas" (see attached). Just last month the Customs Service reported that it had seized $80 million in suspected textile/apparel shipments in the 15 months ending December 1984 (see attached). The practices are plentiful including gross understatements of quantity on visa documents, transshipments, manipulation of fiber content in order to circumvent bilateral restraint agreements, and counterfeited visas. Moreover, the major foreign supplying countries have abused the Export Authorization system to run up a large quota base.

It is not surprising that imports under the program have grown when you consider the fact that the U.S. imports textiles and apparel from over 100 countries, while maintaining bilateral agreements under the MFA with only 30 countries.

There is also the growing problem with imports of textile products not covered by the MFA, now running at over 200 million square yard equivalents a year. More and more foreign producers are blending cotton with other vegetable fibers, or shipping silk products to avoid the MFA altogether. Yet these non-MFA products are directly competitive with U.S.-made textile/apparel products.

Take all these factors and put them together and it is clear why the MFA as it is currently operated has failed so miserably to provide the kind of orderly and nondisruptive growth which it promised. That is why we need the Textile and Apparel Trade Enforcement Act of 1985. It is a rational and thoughtful approach to orderly trade in textiles. It will provide what the MFA has promised, but has not delivered.

International trade distortions

Even if the MFA were a perfect instrument to provide orderly growth in textile/apparel trade, our industry, indeed all U.S. industry, is confronted increasingly by another problem—large volumes of trade aided and abetted by government subsidization, dumping, targeting and countertrade arrangements. These practices which are either ignored or ineffectively addressed by U.S. countervailing duty and antidumping laws, have a profound distorting effect on international commerce. Last July, our union as part of a textile industry coalition filed countervailing duty petitions against 13 exporting countries. Our petitions alleged numerous subsidy practices—preferential export financing, tax rebates to exporters, and a host of other tax and investment incentives.

In its preliminary determinations on these petitions, the Department of Commerce cited 34 separate programs in eleven different countries which were believed to confer subsidies on textile mill and apparel products (see attached). Commerce's final determinations in these cases were profoundly disappointing. In cases where duties were imposed at all, they were unbelievably low. In some cases Commerce negotiated suspension agreements where countries agreed to terminate the offending subsidies. These suspension agreements no doubt will come back to haunt them and us as so many have in the past when the commitments are not lived up to. In other cases, the country simply signed the Subsidies Code, thereby requiring an injury test. Those countries, under the terms of their Subsidy Code commitments, will for varying periods of time be able to continue to subsidize their textile/apparel exports to the U.S. while receiving the benefit of an injury test in any countervailing duty case brought against imports of these products into our market. Subsidies provided by foreign governments are unfair. No U.S. industry, no matter how productive or technologically advanced, can compete with foreign government subsidization.

Efforts to compete: A modernization program

Many have said much about letting certain "sunset" industries fall by the wayside. It is said that we should concentrate where we have a competitive edge—for example, in high tech industries and in services. I beleive the President's Commission on Industrial Competitiveness, which recently published its findings, speaks volumes on this point: The U.S. has lost world market share in 7 out of 10 high technology sectors. This sends a message about putting all our eggs in the high-technology industry basket. As far as services are concerned, the report contends that a strong manufacturing sector is vital to our nation's well being and both services and manufacturing are essential to a competitive U.S. economy. Indeed the biggest market for high-tech applications and services is manufacturing industries.

There are a lot of myths about the textile and apparel industry today. Myths that it is not productive; that it is technologically sluggish, and, therefore, not competitive; and that capital investment is low. These are myths. The reality is that we have the most modern, technologically advanced and productive textile/apparel industry in the world today. Given the current climate of uncertainty brought by this flood of imports, we are concerned that the remarkable efforts being made to modernize this industry, efforts which our union supports and in which we are fully participating, will come to a halt.

The continuous modernization of American industry is basic to maintaining America's competitiveness in international trade and U.S. labor is willing to do its part. We understand the need for technological advances to assist in bringing down costs and improving our competitiveness. It would be foolish for labor to think otherwise, since the alternative is rapid attrition of jobs and closed plants as U.S. firms fail to compete with imports.

Our union is actively pursuing the goal of technoligical advancement. The men's clothing, textile and fiber industry represents an outstanding example of labor and management working together to reduce costs and thereby improve its competitive position. The Textile/Clothing Technology Corporation, or TC² as it is commonly known, was created through funding by our Union, individual companies, and the U.S. Government. The union and several participating companies are each investing substantial sums each year in this program. Supported by these funds together with grants from the U.S. Department of Commerce, the Textile/Clothing Technology Corporation is conducting extensive research into reducing production costs.

TC² is looking at ways of transforming the method of manufacturing garments by looking outside traditional methods. For example, it has been determined that only 25 percent of labor requirements in the manufacture of tailored clothing are in the sewing of the garment. Clearly, we must attempt to reduce handling costs and TC² is addressing itself to the reduction in handling requirements. There have been real break-throughs here. We have developed robotization techniques for application to the garment industry.

We see further break-throughs ahead in bringing down costs in the tailored clothing industry. Significantly, the Japanese are spending some $60 million for research and development for its apparel industry, many times what we are able to spend for the same program in the U.S., yet with the same objectives as ours.

Our Union will have the responsibility with management's cooperation for dealing with the robot-related problems of compensation for our members who may be displaced or placing them in other jobs. In this way and others, we expect to make this industry more competitive and viable, and thus help build a stronger domestic economy.

By and large, the textile and apparel industry has a history of management and labor working together to solve the problems posed by imports. We are both striving for maximizing output, we both see the critical importance of being competitive in our own market, and in markets abroad. We both understand the vital importance of preserving America's industrial base.

In all of this, labor acknowledges its responsibility. Management must share its responsibility. And above all government policies must also share considerable responsibility with labor and management. Without a government policy that prevents the market from being destroyed by imports, all of this cooperation and these joint efforts will be rendered moot.

CONCLUSION

The textile and apparel industry is in a state of siege today. This is not rhetoric. It is a fact. The implementation of the Multifiber Arrangement, despite repeated commitments, has clearly been a failure. If this American industry is to survive anywhere close to its present stripped down state, there is now only one solution: H.R. 1562. Our members will fight for this legislation. We need you to be our partners in this effect.

[From the Washington Post, July 25, 1984]

CUSTOMS SAYS TEXTILES POSE SERIOUS PROBLEM

(By Stuart Auerbach)

When they landed in Los Angeles, the bolts of polyester fabric carried "Made in Korea" labels. But on the boxes they were shipped in, the same label had been crudely crossed out and the documents accompanying the shipment declared that the fabric's country of origin was Japan.

That $2 million shipment was described by a U.S. Customs agent yesterday as a drop in the bucket of a multibillion-dollar scam by countries around the world to beat U.S. textile quotas.

Some countries try to sell textiles and wearing apparel that exceeds their U.S. quotas by transshipping the excess through another country that cannot fill its own quotas, senior Customs agent Thomas Gray told the House Commerce Committee's investigations panel.

Gray, who is based in Hong Kong, said textile products made in China are shipped to the United States under the quotas of Bangladesh, Macao and countries in the Middle East and South and Central America. Similarly, shipments of garments originating in Taiwan sometimes are labled as coming from Japan, Singapore, the Philippines, South Africa, Panama and countries in the Middle East.

Gray said customs agents discovered Korea's transshipment of the polyester fabric through Japan six months ago and have been seizing illegally labled cartons of the products ever since.

"They didn't even bother to repack it," said a somewhat nonplused subcommittee Chairman John D. Dingell (D-Mich.). "They just lined out the country of origin. That indicates a certain supreme contempt for American enforcement."

Gray replied that that case showed unusually "sloppy" work. "They are very clever," he said.

Although he declined to put a precise dollar figure on the fraudulent playing with textile quotas, Gray said customs agents are currently investigating cases involving $2.5 billion of shipments. From last October to mid-July, Customs officials said they had seized $19.6 billion in illegally shipped textile products.

The increased level of seizures comes as the American textile industry is pressing the Reagan administration to tighten up even more on imports, which hit a record high of 4 billion square yards—an increase of 45 percent—during the first five months of this year. The United States' textile trade deficit totaled $6.2 billion in that period.

U.S. manufacturers and labor unions this week filed unfair trade cases against 11 countries—Panama, Colombia, Argentina, Indonesia, Malaysia, Peru, Portugal, Singapore, Sri Lanka, Thailand and Turkey—and said other complaints will be filed against Mexico and the Philippines.

Running down the list of America's major textile suppliers in the Pacific Rim, Gray said:

Taiwan, the largest supplier of apparel to the United States, is likely to remain a problem as the quota system exists.

South Korea, which has just moved up as the No. 2 supplier, runs a gamut of fraudulent activities that includes transshipping textiles, counterfeiting of trademarks and brand name products, and misdirecting and undervaluing merchandise to evade customs duties. Korean transshipments go through Japan, the Middle East and Panama.

Hong Kong, the No. 3 supplier, cooperates better than any other country with U.S. authorities to prevent fraud. Nevertheless, with its booming textiles industry, it is "a primary source of transshipments."

China, the giant of the Pacific Rim that has emerged as the fourth-largest supplier of textiles to the United States, is known for transshipping its excess production through a number of countries.

Japan, No. 5 among major U.S. suppliers, serves as a transshipment point for products originating in Korea, Taiwan and Macao.

Singapore, which offers U.S. authorities "the lowest level of cooperation" in the Asian region, serves as a base for the transshipment of acrylic knit sweaters and cotton and synthetic jackets from Taiwan, and for other apparel from Malaysia and China.

Sri Lanka strictly monitors its own industry, so a "Made in Sri Lanka" label means it is the country of origin.

India, whose government "makes nice gestures but is not very cooperative with U.S. authorities," is a source of textiles transshipped through neighboring nations of Nepal, Bhutan and Bangladesh.

Bangladesh, with a new taxtile industry that first moved into the U.S. market in 1982, is increasing exports to get larger quotas, currently serves as a transshipment point for shorts and pants that are made in China.

Pakistan transships towels and similar products and poses problems as a source of undervalued and misdescribed goods.

[From the Wall Street Journal, Mar. 7, 1985]

POSSIBLE FRAUD IN TEXTILE TRADE CITED IN HOUSE

(By Eduardo Lachica)

WASHINGTON.—The Customs Service released reports listing many instance of possible fraud in the textile-import industry and charged that the U.S. import-quota system encouraged the wrongdoing.

The reports were submitted to a hearing of a "subcommittee of the House Commerce Committee. Combined with complaints by domestic apparel manufacturers about rising import levels, the disclosures are likely to spur congressional action to tighten curbs on foreign competition.

Representative Doug Barnard Jr. (D., Ga.), chairman of the subcommittee, warned that an "immediate freeze on import growth may be necessary to provide relief for the domestic textile and apparel industries."

The Customs reports give examples of traders' circumventing U.S. quotas through allegedly fraudulent shipping documents, bogus trademarks, understatement of the quantity and weight of shipments, and shipments through countries that either haven't yet reached their quotas or don't have any at all.

The reports identify 44 U.S. companies as the consignees of suspected fradulent shipments but the subcommittee withheld their names because the cases are still under investigation. The Customs documents also name 42 companies in Hong Kong, 11 in Indonesia, and seven each in Taiwan, Singapore and West Germany as "exporters alleged to be involved in textile fraud."

The Customs Service reported that it had seized $80 million in suspect textile shipments during the 15-months up to last December. "We don't know if that's just the tip of the iceburg," Robert Schaffer, assistant commissioner of customs for commercial operations, told reporters.

The U.S. textile quota system is based on bilateral agreements with 34 countries restricting imports in 109 product categories. U.S. manufacturers told the House panel the system is "seriously flawed" and the Customs reports appear to bear them out in some respects.

The agreements require strict compliance by signatory governments but Customs officials charged that some Chinese officials aided the suspected frauds by "issuing spurious (textile shipment) visas to entrepreneurs operating in Hong Kong and Macao." The Peking government, moreover, "auctioned off" portions of its U.S. quota to increase foreign-exchange earnings, the reports said.

Shipments through countries with unfilled quotas or none at all are difficult to detect if exporters falsely declare the sources of the goods, the Customs Service also reported. The agency warned that the likeliest diversion points for Chinese-made textiles are Bangladesh, the Middle East and South and Central America.

Many members of the panel expressed support for a textile-quota bill being drafted by Rep. Ed Jenkins (D., Ga.), chairman of the House textiles caucus. The bill would supplant the bilateral agreements with a single global quota.

PROGRAMS PRELIMINARILY DETERMINED BY THE U.S. DEPARTMENT OF COMMERCE TO CONFER A BOUNTY OR A GRANT ON TEXTILE MILL AND APPAREL PRODUCTS IN ELEVEN COUNTRIES

Malaysia

Tax Incentives for Exporters.
Preferential Short-Term Financing.

Turkey

Export Tax Rebate and Supplemental Export Tax Rebate Program.
Deduction from Taxable Income for Export Revenues.
Preferential Short-Term Export Financing.

Thailand

Export Credits.
Rediscount of Industrial Bills.
Electricity Discount for Exporters.
Tax Certificates for Exports.
Assistance to Trading Companies.

Argentina

Post-Financing of Exports Under Circular OPRAC-9.
Reembolso (Tax Rebate on Exports).
Regional Tax Incentives.

Indonesia

Preferential Short-Term Financing for Non-Oil Exports.
Tax Holidays, Accelerated Depreciation, and Other Tax Benefits.
Imports Duty Exemptions for Capital Equipment.

Peru

Certificate of Tax Rebate System (CERTEX).
Nontraditional Export Fund (FENT).
Law for the Promotion of Exports of Nontraditional Goods (Exports Law).

Singapore

Monetary Authority of Singapore Rediscount Facility.
Double Deduction of Export Promotion Expenses.

Sri Lanka

Investment Promotion Zone.
Export Development Board.
Pre-Shipment Export Refinancing Program.

Colombia

Export Rebates Under Law 67 of 1979.
Export Financing through The Export Promotion Fund.
Preferential Financing through the Industrial Development Institute.

Mexico

Fund for the Promotion of Exportation of Mexican Manufactured Products (FOMEX).
Preferential Federal Tax Credits (CEPROFI).
Export Credits at Below Market Rates (FONEI).
Guarantee and Development Fund for Medium and Small Industries (FOGAIN).

The Philippines

Preferential Export Credits.
Preferential Tax Benefits.
Development Bank of the Philippines Interest Moratorium.

Source: Federal Register, Vol. 49, 49651-93 and 50753; Vol. 50, 301 and 1607.

Chairman GIBBONS. Thank you, sir.

Our next witness is from Man-Made Fiber Producers Association, Mr. Gregg.

Mr. SCHULZE. Mr. Chairman, if I may, I'd like to welcome Mr. Gregg, who is a constituent of mine. He is a man who is actively involved in the community and is a dynamic young businessman and in the forefront of doing things the way they should be done. He is a good citizen of our community and of the country, and I'd like to welcome him here before the panel.

Chairman GIBBONS. He doesn't say that many nice things about other witnesses that we have around here, so I'm sure you ought to be flattered.

Mr. GREGG. Thank you. I am flattered. [Laughter.]

Chairman GIBBONS. You must have had to work hard for it, I can tell you that.

STATEMENT OF JOHN N. GREGG, CHAIRMAN AND PRESIDENT, AVTEX FIBERS, INC., AND CHAIRMAN, MAN-MADE FIBER PRODUCERS ASSOCIATION, INC.

Mr. GREGG. Thank you, Mr. Chairman.

I am John Gregg. I am president of Avtex Fibers, Inc., and also have the pleasure of being chairman of the board of the Man-Made Fibers Producers Association. I will submit my testimony for the record and just make a few brief comments on the position of Man-Made Fibers.

Obviously, we feel very strongly about support of this bill, H.R. 1562. It's going to be crucial to our industry. We and our customers are consistently excluded from overseas markets by discriminatory government and industry practices that, in many cases, protect inefficient industries at home while they target, subsidize, and dump textile products in the U.S. market. The U.S. man-made fiber industry is a world-competitive industry; we can compete with anyone. We are owned privately, whereas many of our competitors are government-owned, government-subsidized.

Under fair, equal trade, we can compete anywhere, but we're denied that in many, many cases.

The effects of 1984 were absolutely devastating. While the rest of the economy grew by 7 percent, shipments of man-made fibers declined by nearly 1.5 percent. Employment fell 4 percent and inventories at the year-end were up 6.5 percent over 1983. Durifg 1984, several acrylic and polyester facilities have been closed, and we do face more shut-downs in 1985.

In my own company, we were forced to announce a shutdown of our acetate production facility in Meadville, PA last week. Over 700 employees have lost their jobs in this facility. The tragic human costs are particularly frustrating because we know that far less efficient plants worldwide are propped up by subsidies and protected by import bans.

The acetate market is primarily an apparel market. In 4 years acetate consumption by the U.S. apparel industry has dropped some 100 million pounds. Apparel imports have averaged a growth of 19 percent over each of the last 5 years, versus an expected 6-

percent growth based on what we normally expect under the MFA. We see a continuing decline in this industry.

We believe that a total of 50 percent of the outerwear apparel market today is supplied by imports. We have lost our customers. A modern, efficient plant that made excellent quality, sold to the blue ribbon people of the U.S. textile industry, has closed. You heard discussions about Burlington Industries. This plant supplied Milliken; this plant supplied Guilford Mills, all very competitive companies in this world. We lost this plant because our customers lost their market. You cannot lose 50 percent of your market and have an effective operation.

We didn't only close down 700 jobs; we closed down a lot of other jobs that supply this industry.

Mr. Chairman, I'd like to point out that this plant used raw materials. It used wood pulp that came out of Foley, FL; Jessup, GA; Alaska; Mississippi. We used chemicals that came from as far as Texas. We used coal in our large plant, coal-fired, that came from western Pennsylvania. When we sit here and talk about losing 700 jobs in Meadville, PA, we're just talking about the tip of the iceberg. It affects a lot of different industries. As a result of this, a lot of industries are going to curtail production further.

Meadville is a small town. Our plant was the last remaining large manufacturing facility there. The zipper company that had occupied a major employment position in Meadville got wiped out by the Japanese and is no longer a factor in that city. If the apparel imports had grown at a rate of 6 percent per year, the last 2 years we would have been looking at a 12-percent growth. By the testimony this morning—the Government's own admission—we've had a 24-percent import growth in 1983, and a 32-percent growth in 1984. I have a hard time explaining to the people in Meadville, PA why this type of thing took place.

I know that the control of imports is a complicated issue. My people really don't understand why we sat here and let 50 percent of our apparel market get taken over by imports and not do something about it. This is tragic as far as Meadville is concerned, and I think Meadville is just the tip of the iceberg.

The need could not be more urgent for action to remove the threat to the survival of our industry. The massive imports that we have seen in the last few years must end. The Textile and Apparel Trade Enforcement Act of 1985 certainly deserves timely enactment.

Mr. Chairman, I thank you for the opportunity to testify. I would certainly be pleased to answer any questions from the subcommittee about our industry. Thank you.

[The prepared statement follows:]

STATEMENT OF JOHN N. GREGG, CHAIRMAN, AND PRESIDENT, AVTEX FIBERS INC., AND CHAIRMAN, MAN-MADE FIBER PRODUCERS ASSOCIATION, INC.

Mr. Chairman, my name is John N. Gregg, and I am Chairman and President of Avtex Fibers Inc. and Chairman of the Man-Made Fiber Producers Association, Inc. I appreciate this opportunity to bring to the Committee the viewpoint of the U.S. man-made fiber industry on current conditions in the industry, in international trade, and in the domestic market.

The American man-made fiber industry includes over 100 firms with more than 70,000 employees and plants in 30 states. The top 15 firms in the industry are members of the Man-Made Fiber Producers Association. They account for over 90 percent of the industry's production.

In 1984, the industry produced 8.2 billion pounds of fiber of all types, with sales totaling $10 billion.

Man-made fibers were first produced and used in the United States in 1910 when American Viscose Corporation, the predecessor firm to my company, first produced and marketed rayon fiber.

From then until 1945, man-made fibers held only a minor share of the U.S. textile market. Following World War II, with the development and wide-spread use of nylon, acrylics, and polyester, man-made fibers quickly moved to dominate the American textile market. Over the past decade man-made fibers have accounted for 75 percent of U.S. mill consumpton of all fibers.

The American man-made fiber industry includes a wide variety of products in two basic classes: cellulosic fibers, such as rayon, acetate and triacetate, that are produced from wood pulp, and non-cellulosic fibers, such as nylon, polyester, acrylics, and olefin, that are produced from petrochemical feedstocks.

Man-made fiber products reach three primary end-use markets—apparel, home furnishings, and industrial products. We supply fiber for uses as varied as simulated furs and the rocket nozzles of the space shuttle. Our firms maintain ongoing, aggressive research and development programs to engineer new and better fibers for the changing needs of the American economy. Continuing innovation and dedication to product quality is essential to keep pace with rapid changes in fashion, the ever increasing, varied uses in home furnishings, and with high performance industrial fabric needs. The U.S. man-made fiber textile industry is a highly productive, capital-intensive industry. We believe our industry is the most efficient of its type in the world.

Our productivity has increased nearly 2½ times since 1967, far exceeding the performance average for U.S. manufacturing industries. Given open and fair trading practices, we would enjoy the benefits of this outstanding record. Historically, the U.S. man-made fiber industry has demonstrated its ability to compete effectively in the world market. But, in recent years, the industry has found it increasingly difficult to export fiber. The trade balance for man-made fiber finished goods also has seriously deteriorated under the disruptive surge in imports over the past few years. When added together, the aggregate trade balance for man-made fibers and man-made fiber products amounted to an *export* balance of 1.5 billion pounds in 1980. That has changed to an *import* deficit of 325 million pounds in 1984.

The growing strength of the dollar in recent years has made it more difficult for our companies to export. It also has contributed to increased levels of imports, but this is not the primary cause of the industry's trade problems.

We, and our customers, are consistently excluded from overseas markets by discriminatory government and industry practices that protect inefficient industries at home while they target, subsidize, and dump textile products in the U.S. market. The effects were felt across our industry in 1984. While the rest of the economy grew by 7 percent, shipments of man-made fiber declined nearly 1.5 percent. Employment fell 4 percent, and inventories at year-end were up 6.5 percent over 1983. Several acrylic and polyester facilities have closed and we face more shutdowns this year. In my own company, we were forced to announce a shutdown of our acetate production facility in Meadville, Pennsylvania, last week. Over 700 employees have lost their jobs. The tragic human costs involved are particularly frustrating because we know that far less efficient plants worldwide are propped up by subsidies and protected by import bans.

These practices are part of national strategies abroad that are aimed directly at the U.S. market. Their success is clear to all. Textile and apparel imports into the U.S. grew to all-time records in both 1983 and 1984. In the third quarter of 1984, for the first time, imports claimed 51 percent of the U.S. apparel market. The American apparel market has, until recent years, been the largest market for U.S. produced man-made fiber—but with the explosion of imports in recent years this critical market is being lost to overseas suppliers.

The import problem is even more serious in view of the fact that the total U.S. textile and apparel market has grown at a rate of just 0.1 percent annually from 1973–1984. Imports of yarn, fabric, and garments have grown at an annual rate of 19 percent for the past five years—and at a devastating 60 percent over the past two years combined.

Mr. Chairman, the American fiber/textile/apparel sector is excluded from important overseas markets by government barriers ranging from prohibitive tariffs to absolute bans on imports. These unfair trading practices are particularly severe in the very countries that hold the largest shares of textiles and apparel imported into the United States market.

For example, in East Asia, major exporters such as South Korea, Taiwan, and China impose tariffs on textile and clothing imports that typically run as high as 100 to 250 percent. In addition, imports in this sector usually are subject to centralized review and control to take care of any of our products that are competitive even in the face of these exclusionary tariffs. South Korea maintains tariffs on textile products that range from 30 to 85 percent, but most textile and apparel items face outright import bans. In Taiwan, textile tariffs run from 75 to 100 percent, but to cover situations where we would be competitive enough to overcome these barriers Taiwan specifies that many items may be imported only by manufacturing firms—to be absolutely certain they are not the least bit harmed by us, or by any other competition. In China, the direct control of import purchases is well known—and on top of that textile tariffs run up to 250 percent.

Many other countries that maintain high levels of textile and apparel exports to the U.S. completely ban imports of similar products in return. In our own hemisphere, Brazil maintains textile and clothing tariffs at 205 percent, but just to be sure the market remains closed, most items also are banned either directly, or indirectly via suspension of import licensing.

In general, these developing countries allow U.S. fiber and textile products into their markets only when they are necessary for export production and there is insufficient local supply.

In short, Mr. Chairman, we face a world that consistently prevents us from making use of the substantial competitive advantage we have developed in many areas through consistent investment, modernization, and product innovation. We simply cannot continue to exist if we are the only open market in this international network of restrictive practices.

These practices not only stop our direct exports, they result in a major deflection of worldwide textile and apparel producing capacity to the U.S. market. The massive import surge in the U.S. during the past two years bears this out. We have seen a 60 percent increase in textile and apparel imports to the U.S., while most other major developed country markets have maintained nearly flat, controlled import levels.

The European Community illustrates this best of all. Notwithstanding a major export drive by the less developed countries over the past two years to gain foreign exchange, Europe has managed its import regime in a manner that has virtually eliminated growth in textiles and apparel. Following the last MFA, the EC negotiated much tighter agreements with Hong Kong, Taiwan, and Korea resulting in rollbacks in their trade levels. Since then, the EC has administered its import control system in a tight, careful manner. This provided room for the EC to allow increases in imports from China and from the Community's important trading partners in the Mediterranean regions. Thus, the EC has been able to prevent disruption in its own market while accommodating growing trade relationships with its most important trading partners. Our Government has done its part to help them by allowing in all of the trade diverted away from the EC market by these practices.

Mr. Chairman, the U.S. open market practices during this period stand alone in the worldwide trading community—and they have cost hundreds of thousands of jobs with no end in sight. In the face of repeated commitments to prevent disruption and to maintain a relationship between import growth and growth in domestic markets, our Government has in fact done neither. Imports have been allowed to explode into the U.S. market from all sources, whether from old established suppliers or from new entrants encouraged to build textile and apparel producing capacity to target the one significant open market in the world.

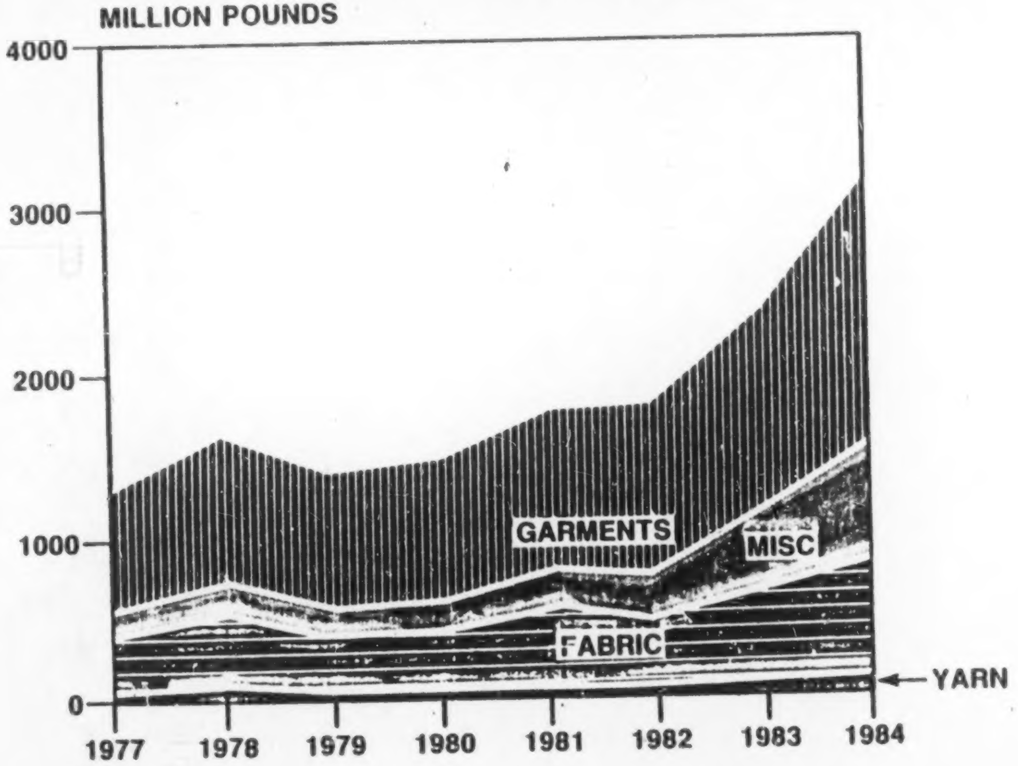
This situation simply cannot continue if the U.S. fiber/textile/apparel sector, and the four million workers who depend upon it directly and indirectly, are to survive.

H.R. 1562, the Textile and Apparel Trade Enforcement Act of 1985, will redress the unfairness of the past 4 years. It will impose order and stability in this critical sector, while granting the smallest and poorest countries the major part of U.S. import growth, now and in the years ahead. The impressive cosponsor list for the bill—over one-third of both Houses of this Congress, and growing daily—attests to its appeal as the best and most timely solution to the unfair, targeted trading practices we face.

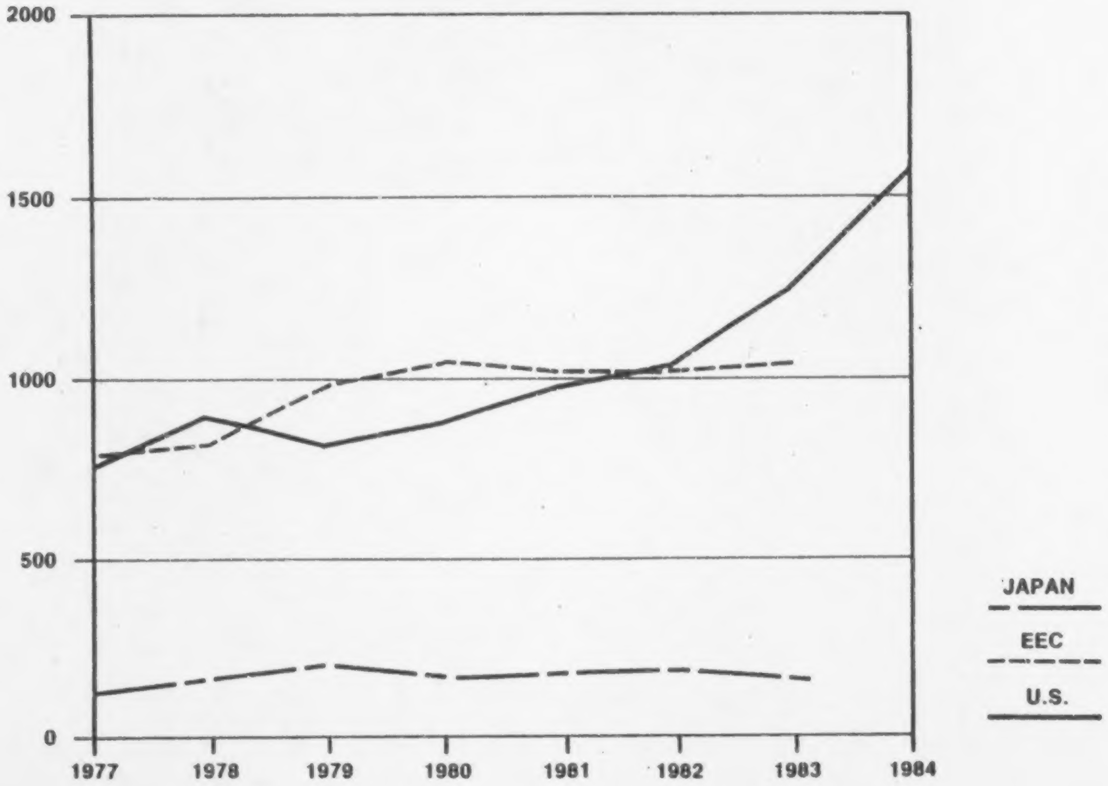
Mr. Chairman, I urge the Subcommittee to give this necessary legislation the urgent attention it deserves.

Thank you for this opportunity to present the viewpoint of the American manmade fiber producers on this critical topic. I would be pleased to answer any questions you may have.

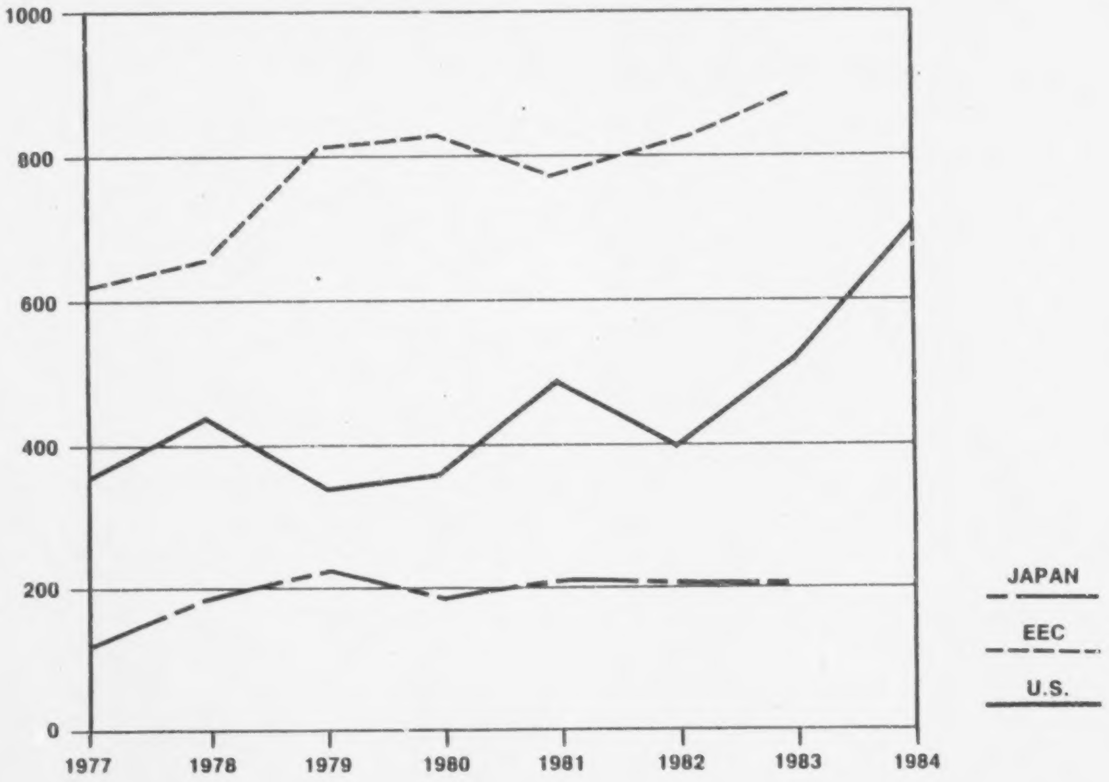
U.S. IMPORTS OF TEXTILES & APPAREL BY PRODUCT TYPE



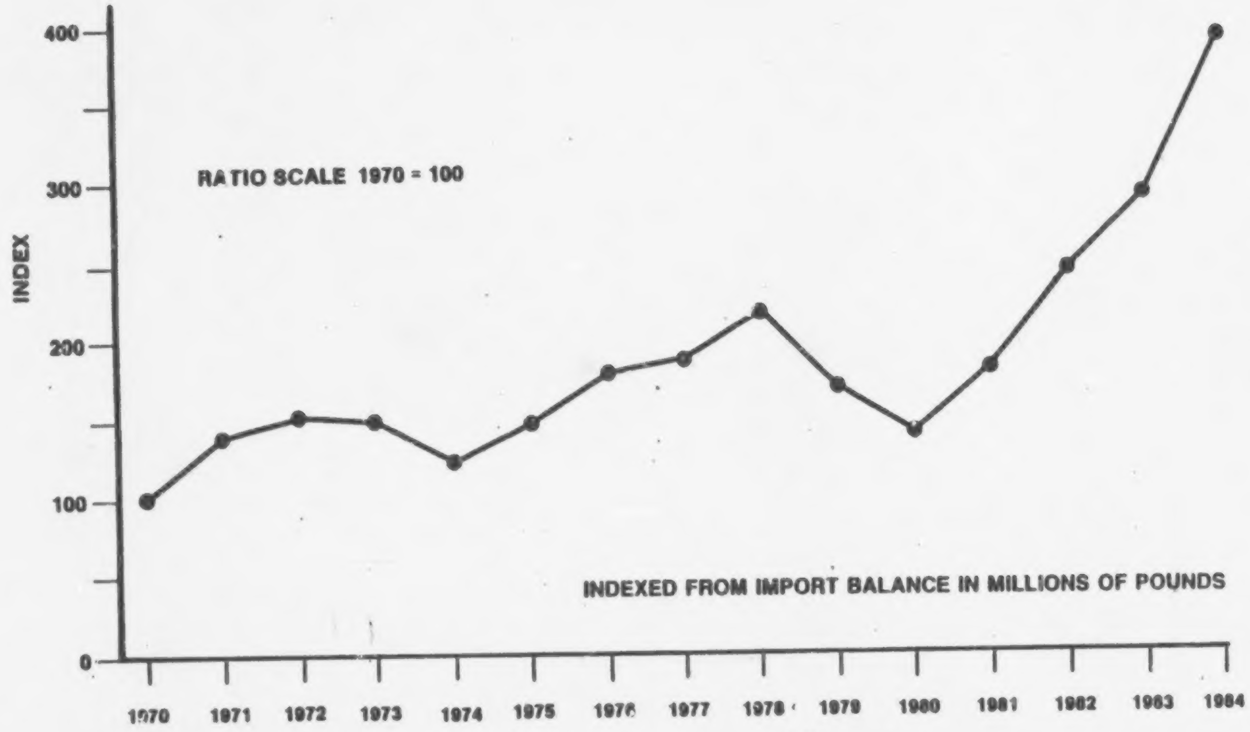
APPAREL IMPORTS INTO DEVELOPED REGIONS
MILLION POUNDS

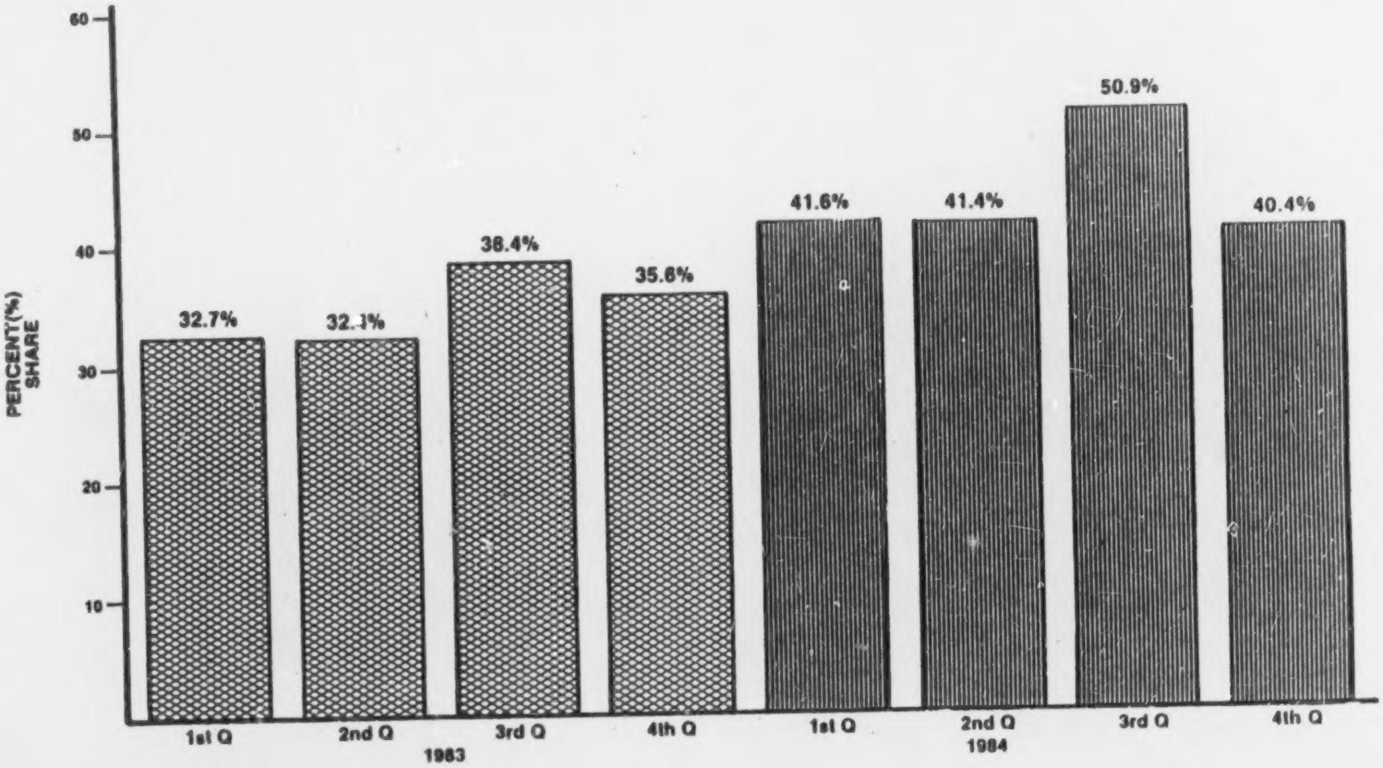


FABRIC IMPORTS INTO DEVELOPED REGIONS
MILLION POUNDS



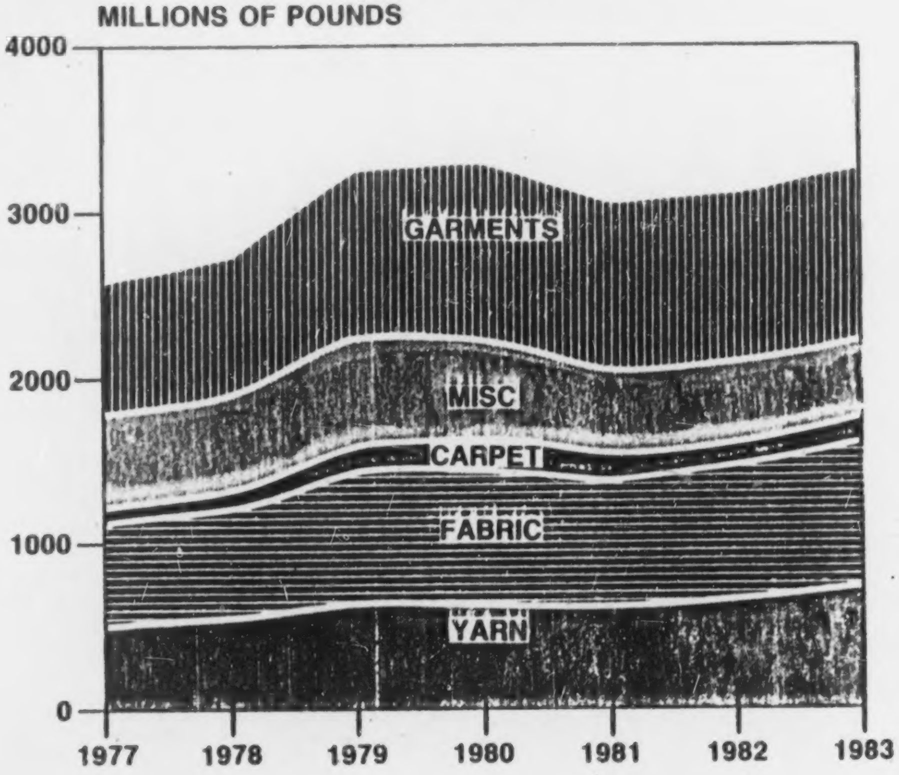
INDEX OF U.S. GARMENT IMPORT TRADE BALANCE
1970–1984





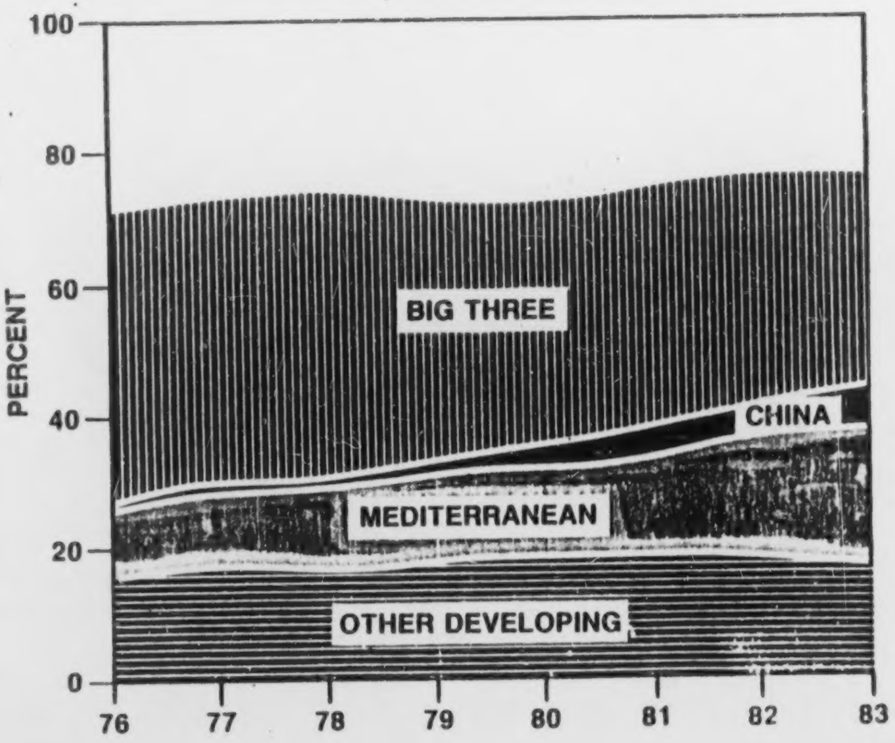
A COMPARISON: 1983 VERSUS 1984
IMPORT SHARE OF THE U.S. APPAREL MARKET

EEC IMPORTS OF TEXTILES & APPAREL BY PRODUCT TYPE

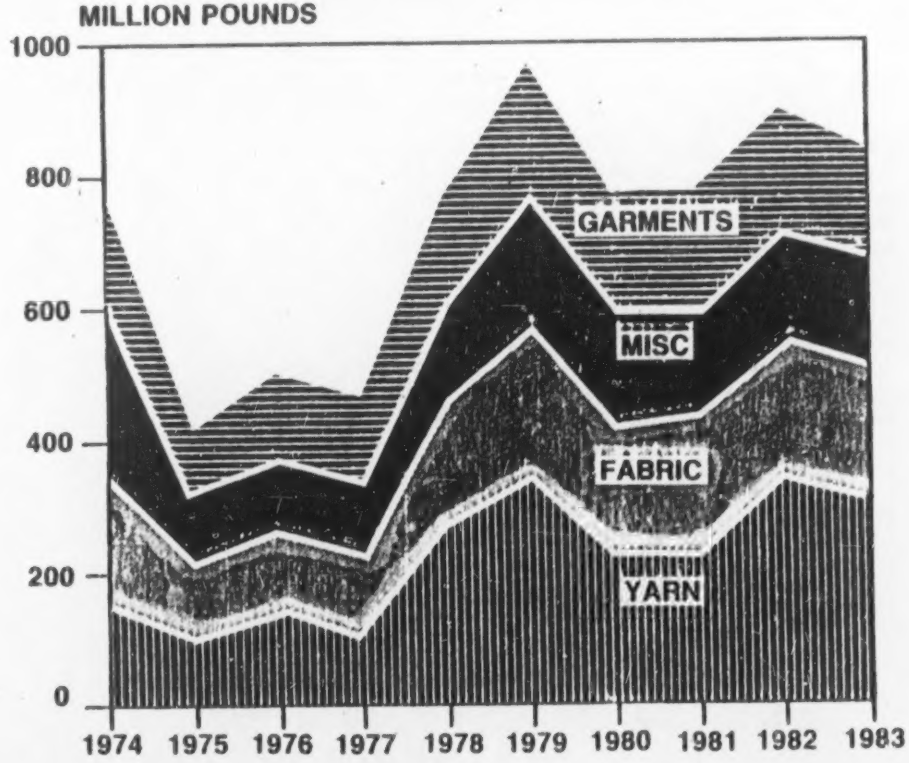


EEC IMPORTS OF APPAREL FROM DEVELOPING REGIONS

PERCENT SHARE: UNITS BASIS



JAPAN IMPORTS OF TEXTILES & APPAREL
BY PRODUCT TYPE



Chairman GIBBONS. Thank you, Mr. Gregg.

Our next witness is Mr. Hollis of the National Cotton Council.

STATEMENT OF SAMUEL HOLLIS, PRESIDENT, FEDERAL COMPRESS & WAREHOUSE CO., AND PRESIDENT, NATIONAL COTTON COUNCIL

Mr. HOLLIS. Thank you, Mr. Chairman.

Chairman GIBBONS. Mr. Hollis, you'll be glad to know I wear nothing but cotton shirts. I've got an allergy to that other material, I'm sorry to say, but I'm a great booster of your product.

Mr. HOLLIS. Glad to hear that, Mr. Chairman.

I am Samuel B. Hollis, a cotton warehouseman from Memphis, TN, and currently president of the National Cotton Council, in whose behalf I appear. Many of you may not know it, but the National Cotton Council is the central organization of the cotton industry, representing cotton producers, handlers, and processors from coast to coast.

The U.S. cotton industry has been hard hit by the textile imports we've been discussing today. While the American people were buying the equivalent of 8.2 million bales of cotton across retail counters last year, only 5.2 million of it was U.S. cotton supplied through the domestic mills. The rest was textile imports, 80 percent of which was made from foreign-grown cotton. Textile imports now supply 37 percent of the market for cotton textiles in this country compared to 25 percent in 1980 and 16 percent in 1975. Since 1980, those imports grew at an annual rate of 16 percent, but in 1984 soared up to 29 percent. If the growth rate since 1980 were to be continued, imports would take over the entire domestic market in 8 years; but if last year's trend continues, the domestic market for U.S. cotton will disappear in just 5 years. Neither of these trends is consistent with the survival of the U.S. cotton industry.

Textile imports displaced $550 million worth of raw cotton in 1983, and the reduced demand caused the price of what farmers received to be reduced by about 9 cents per pound. Together, lower markets and lower prices cost the farmer about $900 million in 1983. Of course, deficiency payments partially offset the loss, but that means that one-half billion dollars of cost to the Government was directly attributable to cotton textile imports.

Cotton farmers find themselves in the ironic position of spending $20 million a year of their own money on research and promotion to increase markets, only to see imports reap most of that benefit. Our cotton producers and textile mills are among the most efficient in the world, and they can compete on a fair playing field in trade. Our problem stems mostly from subsidized fiber and textile production overseas, foreign circumventing of international trade agreements, unfair trading practices by other countries, and an overvalued dollar.

Solutions to the textile import problem must come from both industry and Government. The industry must and is continuing its efforts to become more competitive. Self-help programs like investment in new technology, research to improve quality and boost productivity, market development programs to promote textile consumption, and campaigns to promote allegiance to American-made products are already in place and receiving enthusiastic support. We feel it is now time for Government to do its part. We urge quick action in providing relief through enacting legislation to provide for enforcement of the international multifiber arrangement as provided for under the provisions of H.R. 1562, the Textile and Apparel Trade Enforcement Act of 1985.

Thank you very much for letting us present our views here today. We will be glad to answer any questions.

Chairman GIBBONS. Thank you, Mr. Hollis.

Our next witness is Ernest Mariani, president and chairman of the board of Pyke Manufacturing of Salt Lake City, UT, and chairman of the American Apparel Manufacturers Association.

STATEMENT OF ERNEST D. MARIANI, PRESIDENT AND CHAIRMAN OF THE BOARD, PYKE MANUFACTURING CO., AND CHAIRMAN, AMERICAN APPAREL MANUFACTURERS ASSOCIATION

Mr. MARIANI. Thank you, Mr. Chairman.

My name is Ernest D. Mariani. I am chairman of the American Apparel Manufacturers Association and president of the Pyke Manufacturing Co. in Salt Lake City, UT. I will deviate even from the prepared synopsis that was prepared for me because you've heard many of the figures and facts that I'm going to give to you, and if you're like I am, my head is reeling with numbers at this point.

I would like to just cover a few personal items, I guess, Mr. Chairman. First of all, our American Apparel Manufacturers Association does strongly support this Textile and Apparel Trade Enforcement Act of 1985 because it does what we think is very necessary. It's the survival of the people that are so necessary for this country, and I sincerely believe that if we don't think first of our people, and if we don't think of our country, then where do we put our thoughts?

As a small manufacturer from Salt Lake City, I relate very well with what Mr. Chaikin just said about the women's apparel segment of our industry, which is now about 50 percent imports. I also relate very well with what has been said earlier as to the earnings. My owners of the company are not very happy with me, and maybe it's our management—I don't know—when you show only a 3-percent return on equity. Something has got to be better than that.

But we feel that there are many inherent things taking place wrong with the MFA. The MFA is not being implemented. It is not being performed, if you will, the way it should. So consequently, how do we, as a small company, plan?

Planning is paramount. And again, our owners say to me, "Ernie, how are we going to invest money in this company, into equipment that we need, when we can't see a future for our industry?" We heard from Mr. Meltzer earlier today that our industry has gone from some 26,000 companies only a few short years back, to now some 13,000 companies, and the demise continues. Would you as an owner, as a shareholder of a company, give to the president of a company money to invest in technology and equipment—

which we're continually beseeching them for—with that type of trend? It's very difficult.

We think that our customer—and let me say this, it's a very difficult position for me to be here, because our customer is a retailer, and I have to believe that we, the manufacturer, with our customer, the retailer, ought to be able to work these problems out. I purchase products in the retail stores because I'm proud to do so, and I sincerely believe that we're meaningful to the retailer in what we can give by flexibility, by turnaround with their industry.

But I think they want to be able to plan. I don't think they want to be in a position where they're beseiged with all of the goods that we just heard about which creates inventories for them, which creates big markdowns for them, and consequently they're faced with lower profit margins, and also unhappy shareholders, and unhappy owners.

Gentlemen, I have just observed, in our State of Utah, the demise of an industry that meant very much to us. In fact, I'm even going to take a personal note. My father, an Italian immigrant, got his start when he came to this country by selling Italian products to Bingham Canyon, where Utah Copper Division had their mine, the open pit copper mine. If it hadn't been for that little area, I don't know what my dad—we worked in the coal mines—and whether he would have been able to persevere with his Italian wholesale business. That industry was the biggest industry, the largest employer in the State of Utah. In 1981, I believe it was, they employed something like 7,800 people.

You will recall that just 1 week ago they announced—Kennecott announced—a closing of the Utah Copper Division. It's sad to me, it is really sad, when we let an industry that meaningful to a community like ours out there in Salt Lake City, in Bingham Canyon, in Copperton, an industry where we, the unions, and the people in our Government can't work together through the years and make an industry like that survive.

Here today we have—and I'm proud to be here with associates, with the unions, and with our other associates, and with you, our Government, and our apparel industry, and the textile people, and the fiber people, and so forth—why can't we work as partners? Why can't we work together and do everything possible—not for protectionism, but what is right and for fair trade so we can survive with these jobs for these people? And I would invite you gentlemen to come into Utah and to come into some of our little cities.

I'm just going to take 1 more minute. We have a plant in Mantai, UT; we employ 134 people. The city is 2,200 people; they've got a total of 534 employed there. And I talked with their city manager, Bill Nickelson. He said, "Ernie, if we ever lose that business," Pyke Manufacturing Co. in Mantai, "I don't know what's going to happen to this city."

And I want to make one other observation, gentlemen. We keep hearing about high technology being the salvation for this country, and yet high technology—and I've got to be honest, I'm not sure what high technology, medium technology, or low technology is sometimes—but nonetheless, technology now is having its problems because of the flood of imports. And they're losing people in our communities because of the flood of imports with technology.

We have got to work for what's made this country great, and it's been the people and it's been the opportunity to work. And I'd like for you to come into our plants and look into the eyes of these women. They mean a lot to us, and that's why I'm here for our industry and for our people for the survival of this, that has made it possible for us all to be here.

I sincerely appreciate being here this afternoon.

[The prepared statement follows:]

STATEMENT OF ERNEST D. MARINAI, CHAIRMAN, AMERICAN APPAREL MANUFACTURERS ASSOCIATION

Thank you, Mr. Chairman. My name is Ernest D. Mariani. I am Chairman of The American Apparel Manufacturers Assocition and Chairman of the Board of the Pyke Manufacturing Company in Salt Lake City, Utah. AAMA is the central trade association for the American apparel manufacturing industry. Our membership represents some two-thirds of U.S. capacity for apparel manufacturing and produces all lines of apparel in virtually every state.

We very much appreciate your interest in our industry and the problems caused by the flood of imports. It is our privilege to be here today.

The AAMA is in strong support of the Textile and Apparel Trade Enforcement Act of 1985 which was introduced in both the House and the Senate on March 19. We believe passage of this bill is necessary to bring order to a chaotic import situation and to provide domestic garment manufacturers a reasonable share of the American market.

Despite our problems, our industry is a viable one, making an enormous contribution to the domestic economy. We provide employment for about 1.2 million people, about one million of them women. Wages and benefits paid by the apparel industry in 1983 were about $16 billion. The industry creates two to three times as many jobs in other industries—retail, transportation, service etc. The value of the fabric consumed by our industry represents 50 percent of the total value of the output of the domestic textile industry. Forty percent of the fiber consumed in the United States goes into the fabric used to manufacture apparel.

Mr. Chairman, I would like to discuss for a minute the subject of the effect of the apparel import control program on inflation. It often is claimed that the prices of imported apparel are lower than the prices of garments produced domestically and that any limitation on the amount of apparel imported comes at the expense of the consumer.

Recent data, however, belies that claim. The Marketing Research Corporation of America is a respected consumer diary that reports regularly on what American consumers buy. Data provided includes the description of the garment, its fiber content, its price and its country of origin. This data is a real report on what American consumers are buying and what they are paying for it.

In 1984, according to this survey, the price of imported apparel in the United States was virtually the same as the price of domestically-produced garments. Compared item for item, men's and boys' garments cost $6.68 per garment if they were made in the U.S.A. and $6.63 each if they were imported. In women's ware imports actually were more expensive, costing $7.72 each compared to $7.65 for the domestic item.

Our industry has not been without government support and for that we are grateful. Some form of international regulation of textile and apparel trade has existed since 1957 when the Japanese voluntarily limited their exports of cotton fabric. It extended through three international agreements limiting imports of cotton products. In 1973, the first Multifiber Arrangement, covering cotton, wool and man-made fibers, went into effect and it has twice been renewed. The United States has negotiated 29 bilateral agreements under the umbrella of the MFA.

We also are appreciative of the efforts this Administration has made to bring a measure of certainty and reasonableness to the import control program. The guidelines issued on December 16, 1983, represented an effort to bring under control at the earliest possible moment imports in uncontrolled categories from countries with which we have bilateral agreements and rapidly increasing imports from non-bilateral countries. Likewise, the new rules of origin published on August 3, 1984, were a sincere attempt to cope with transshipments and quota avoidance. I might add that the AAMA is most pleased that these rules have just recently been amended to close a large loophole they accidentally created.

Despite these efforts, the Administration has fallen far short of its commitment to relate the growth of imports to the growth of the domestic market. Imports of apparel in calendar year 1984 totaled four billion 722 million square yards equivalent, up 21 percent from the previous record year of 1983. Since 1980, the last year before this Administration took office, imports of apparel have increased 64 percent.

It also is interesting to compare the current import situation with the situation as it existed in 1973, the first year the Multifiber Arrangement was in effect. In 1973 the domestic industry produced 13.1 outerwear garments for every American and imports provided 3.7 garments per person. Last year, the domestic industry produced an estimated 13.2 outerwear garments for every person, an increase of one-tenth of one garment over 21 years. In 1984, by comparison, imports accounted for 8.1 garments per person, an increase of 219 percent since 1973. Put another way, in 1973 imports provided Americans 22 percent of their outerwear garments. In 1984, imports accounted for 39 percent of those garments.

This import growth is the primary cause of the loss of 274,000 jobs in the apparel industry since peak employment of 1,438,000 in 1973. Many more jobs have been lost in the textile, fiber and other industries. Currently, the unemployment rate in the apparel industry is 10.3 percent, nearly half again as high as the national average.

By comparison, the European Economic Community appears to have done quite well in controlling apparel imports. Between 1979 and 1983, apparel imports into the EEC grew only 7.1 percent, compared to 45.6 percent into the United States. The EEC actually rolled back Hong Kong, Korea and Taiwan by 11 percent in that time span while imports from those three countries into the United States grew 44.3 percent. There is one area where apparel imports into the EEC did grow rapidly and that is from a group of countries around the rim of the Mediterranean which grew 30.2 percent. Significantly, these countries probably are participating in outward processing—the EEC version of our Tariff Item 807—and the apparel being imported is made of cloth manufactured in the EEC.

It becomes apparent that the Multifiber Arrangement and the bilateral agreements negotiated under it are not bringing order to the American marketplace. Import penetration has doubled during the life of the MFA and the domestic industry is suffering from a new avalanche of imports.

One reason the MFA has not worked for the United States is that the bilaterals negotiated under it are not comprehensive. There are 109 categories of textile and apparel imports and none of the bilaterals begins to provide full coverage. A brief case history may be interesting. In 1981 the United States renegotiated its bilaterals with the three largest suppliers—Hong Kong, Korea and Taiwan—to reduce the growth rate provided on specific categories to one percent or less. Yet in 1982 apparel imports from these countries increased 5 percent and they grew another 14 percent in 1983. This growth came largely in categories not covered by quotas.

However, the Administration action of December 16, 1983, resulted in a significant increase in the number of categories with quota coverage from these three countries. The result of this action? A shift in production to a group of secondary suppliers. Imports in the following year, 1984, increased 52 percent from India, the Philippines, Indonesia, Singapore, Sri Lanka and Thailand.

Another and more recent reason the MFA is not working is because it covers only products made from cotton, wool or man-made fibers. It does not cover other fibers such a linen, silk and ramie. Until recently this has not been a problem. However, when quotas on sweaters began to bind, maufacturers in the low-wage countries found a way around them. Imports of sweaters from Hong Kong in 1984 totaled four million 967 thousand dozen, nearly double the quota available. However, of that number nearly 2.4 million dozen—48 percent of the total—were made of non-MFA fibers and not subject to quota. Imports of non-MFA sweaters from Hong Kong increased 284 percent in 1984.

Another 1.4 million dozen non-MFA sweaters come from Korea, while Taiwan sent 378,000 dozen and China sent 250,000. Non-MFA imports of all products in 1984 were 8.6 million dozen.

Finally, the MFA does not work for the United States because the U.S. import control program is operated by a bulky interagency committee that is slow and reluctant to act on rising imports and because the administration of the program has been woefully inadequate.

For these reasons, the American Apparel Manufacturers Association is in support of H.R. 1562, the Textile and Apparel Trade Enforcement Act of 1985. This bill would translate the intent of the MFA into law.

It would limit 1985 imports to the levels they would have reached had we not suffered the massive import increases of the last four years. It would restrict the largest exporting countries which have dominated our market and allow for growth from the smaller countries which are seeking a share of the American marketplace. It would provide for orderly growth in the future.

This bill would reduce the imports of the major low-wage exporting countries to their 1980 levels, then provide them six percent growth for each year through 1984. This six percent growth figure is consistent with the intent of the Multifiber Arrangement. Their authorized levels for 1985 then would be 101 percent of the new 1984 level.

The smaller countries seeking to ship textiles and apparel to the United States would receive a bonus. Their 1985 export limits would be 115 percent of their actual 1984 exports.

In years after 1984, import growth from the largest suppliers would be limited to one percent a year, while the smaller suppliers would have six percent growth limitations. This formula would have the effect of allowing the smaller countries much greater access to our market.

Also. H.R. 1562 would provide quota coverage for the non-MFA fibers that have appeared in large volume in the last two years, and it would require the establishment of an import licensing system.

Consistent with H.R. 12234, AAMA has offered a proposal for the creation of an import permit system which would provide a significant improvement in monitoring imports of apparel and provide more certainty in the operation of the import control program. This system could be implemented by the Administration under current authority and it would be consistent both with the MFA and the General Agreement on Trade and Tariffs.

Under this system, an exporting company would obtain a permit from the United States Department of Commerce. A request for a permit must be accompanied by legitimate evidence of an order for the goods. In the case of goods covered by quota, the exporter must present evidence that he has been allocated quota. This would prevent a few major exporters from obtaining large numbers of permits. A permit must be obtained no earlier that 18 months and no later than 90 days prior to shipment. The Department of Commerce could charge the exporter a reasonable fee for the permit.

Permits would be considered authorizations to import and their issuance would be automatic except in cases where quotas are filled. Permits also would provide an early warning system under which their accumulation would alert government and industry to impending threats of market disruption. Permits would be required for imports from all countries.

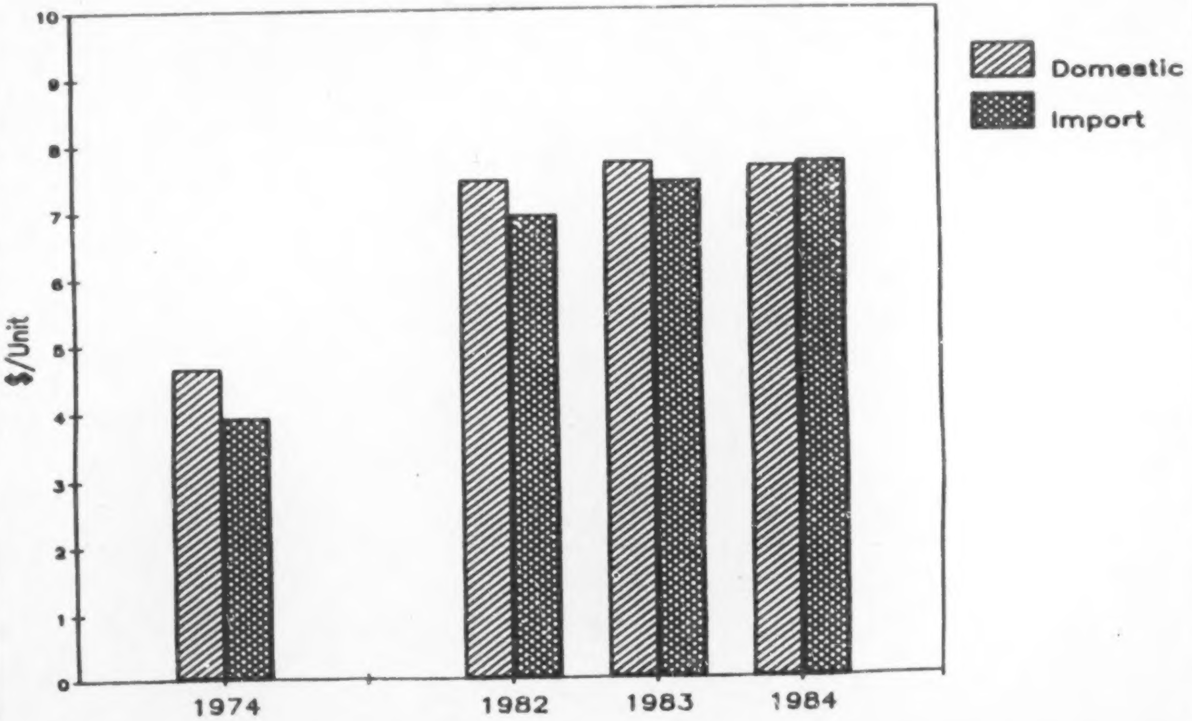
The exporting company would be required to have the permit validated by an appropriate government agency in its own country. This validation would affirm that the goods are what they are purported to be and that they are goods of origin in that country. This permit then would accompany the goods and no goods would be admitted through U.S. Customs without an appropriately validated permit.

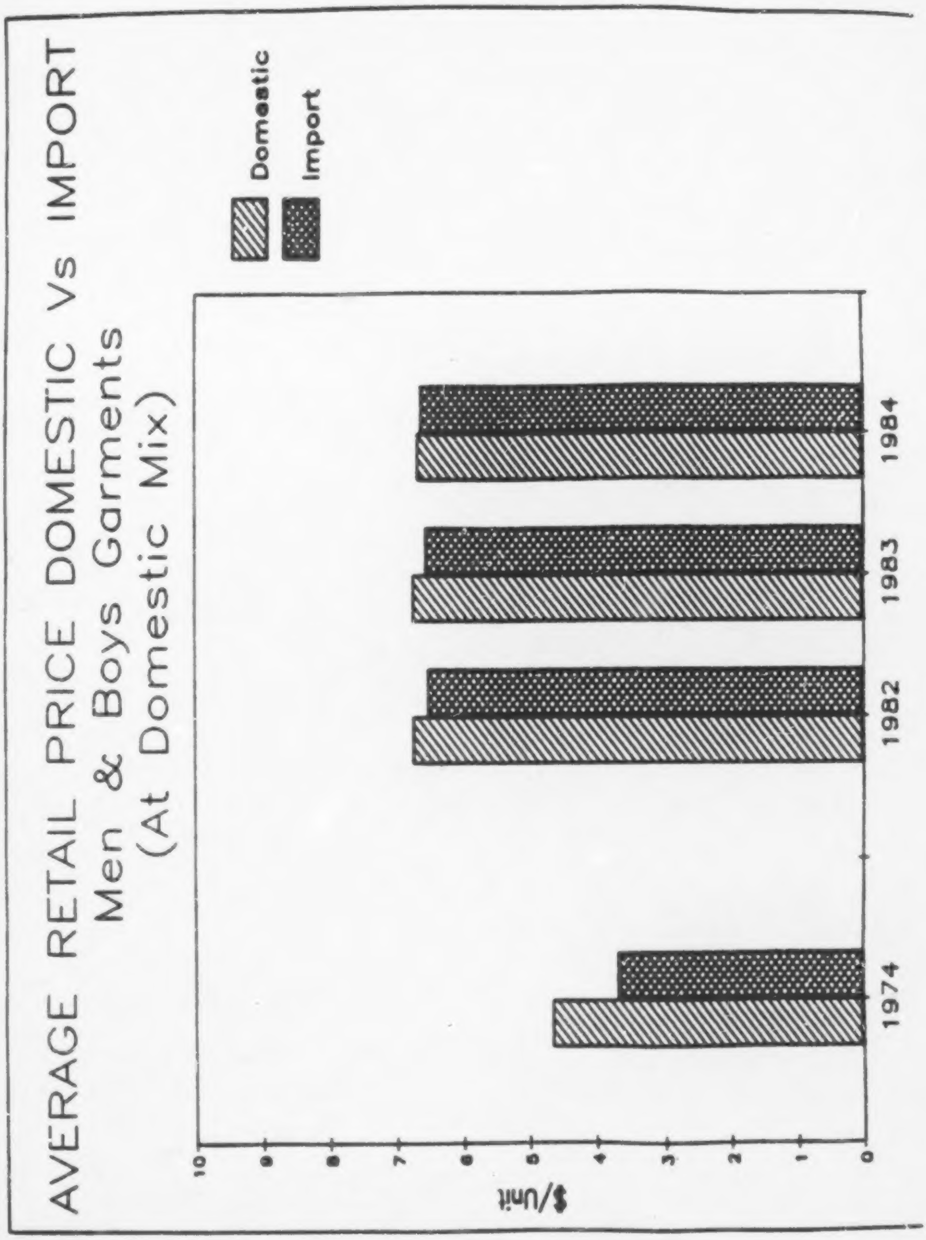
The one thing that all persons concerned with the textile and apparel import control program can agree on is that it is not working properly. Domestic manufacturers are concerned about the rapid increases in imports. Importers and retailers are concerned about embargoes and the inability to plan their businesses.

We believe the system we propose combined with passage of H.R. 1562 would provide more certainty to the program, allowing both domestic manufacturers and importers the luxury of advance planning.

Mr. Chairman, I want to thank the Subcommittee for the opportunity to appear here today. We appreciate your interest in our industry and your concern for our problems. I would be pleased to answer any questions you may have.

AVERAGE RETAIL PRICE DOMESTIC Vs IMPORT
Women & Girls Garments
(At Domestic Mix)





AVERAGE RETAIL PRICE DOMESTIC Vs IMPORT
Men & Boys Garments
(At Domestic Mix)

MEN & BOYS

APPAREL DOMESTIC: Share of Key Categories

	1976			1981			1982			1983			1984		
	MM Units	Avg.Price*	Share	MM Units	Avg.Price*	Share	MM Units	Avg.Price*	Share	MM Units	Avg.Price*	Share	MM Units	Avg.Price*	Share
Coats	96.7	$17.20	3.1%	39.0	$32.69	1.3%	45.9	$35.96	1.3%	45.2	$36.00	1.3%	46.6	$35.61	1.4%
Suits/Sportcoats	51.9	52.06	1.7%	34.5	86.00	1.2%	35.0	85.61	1.0%	37.0	89.92	1.1%	34.0	89.83	1.0
Slacks/Jeans	563.5	7.04	18.1%	462.4	13.40	15.8%	445.6	13.76	13.0%	391.9	13.51	11.6%	389.2	13.40	11.6
Shorts	16.4	3.90	0.5%	28.0	6.06	0.9%	83.8	5.90	2.4%	85.1	6.90	2.5%	87.9	6.30	2.6
Dress Shirts	190.7	6.20	6.1%	126.2	10.73	4.3%	105.3	11.50	3.1%	105.9	12.33	3.2%	101.5	12.67	3.0
Knit Sport Shirts	248.1	6.06	8.0%	288.5	6.53	9.8%	391.0	6.36	11.4%	364.0	6.61	10.8%	361.0	6.85	10.7
Woven Sport Shirts	130.5	5.58	4.2%	93.4	9.91	3.2%	110.7	10.36	3.2%	97.3	10.54	2.9%	86.0	10.72	2.6
Sweaters	43.6	10.53	1.4%	70.6	14.19	2.4%	67.9	15.45	2.0%	67.9	15.75	2.0%	71.4	15.50	2.1
Underwear	779.0	1.19	25.0%	674.5	1.81	23.0%	805.4	1.85	23.5%	831.7	1.99	24.7%	849.5	1.92	25.2
Nightwear	69.5	5.67	2.2%	49.7	9.20	1.7%	84.2	8.10	2.5%	78.6	8.30	2.3%	78.2	8.37	2.3
Hosiery	833.0	0.81	26.7%	881.6	1.19	30.1%	962.5	1.26	28.0%	983.2	1.28	29.2%	976.0	1.27	29.0
Other	94.5	3.65	3.0%	192.0	3.00	6.6%	295.7	8.75	8.6%	283.2	9.44	8.4%	287.6	9.17	8.5
Totals	3115.6	$ 4.67	100.0%	2932.4	$ 6.91	100.0%	3434.6	$ 6.75	100.0%	3371.0	$ 6.75	100.0%	3370.5	$ 6.60	100.0%

Source: MRCA Consumer Diary Panel

*Current Dollars

MEN & BOYS

APPAREL IMPORTS: Share of Key Categories

	1976			1981			1982			1983			1984		
	MM Units	Avg.Price*	Share	MM Units	Avg.Price*	Share	MM Units	Avg.Price*	Share	MM Units	Avg.Price*	Share	MM Units	Avg.Price*	Share
Coats	26.0	$12.05	11.8%	28.8	$23.62	7.2%	39.6	$27.02	7.2%	50.2	$28.30	8.3%	51.7	$27.60	7.9%
Suits/Sportcoats	5.8	38.95	2.6%	4.8	82.94	1.2%	7.8	77.50	1.4%	9.3	39.29	1.5%	9.8	36.77	1.5
Slacks/Jeans	24.9	5.25	11.3%	45.9	12.52	11.4%	56.7	11.12	10.3%	58.0	11.37	9.5%	66.1	12.11	10.1
Shorts	2.3	6.04	1.0%	6.6	7.08	1.6%	19.4	7.10	3.5%	23.8	7.30	3.9%	26.1	7.34	4.0
Dress Shirts	48.8	4.28	22.2%	65.0	8.40	16.2%	63.8	9.61	11.6%	75.9	9.06	12.5%	83.6	10.99	12.7
Knit Sport Shirts	22.1	4.62	10.0%	65.7	11.06	16.4%	95.2	8.00	17.2%	107.1	9.44	17.6%	118.0	9.36	18.0
Woven Sport Shirts	41.8	4.33	19.0%	89.5	7.27	22.3%	119.6	7.95	21.7%	112.5	8.53	18.5%	104.4	9.58	16.0
Sweaters	15.6	9.57	7.1%	39.5	14.63	9.8%	44.1	16.63	8.0%	51.0	14.40	8.4%	56.9	15.68	8.7
Underwear	6.2	1.13	2.8%	7.4	2.03	1.9%	9.8	2.21	1.8%	14.3	1.98	2.3%	19.9	2.11	3.0
Nightwear	6.7	4.21	3.0%	12.9	8.22	3.2%	13.8	9.00	2.5%	15.4	8.90	2.5%	15.3	9.73	2.3
Hosiery	8.7	1.05	4.0%	15.6	1.39	3.9%	16.1	1.36	2.9%	17.5	1.60	2.9%	18.8	1.35	2.9
Other	11.2	3.81	5.1%	19.8	5.45	4.9%	65.8	9.50	11.9%	73.6	10.03	12.1%	84.5	9.58	12.9
Totals	220.1	$ 6.37	100.0%	401.5	$11.11	100.0%	551.7	$11.39	100.0%	608.9	$12.12	100.0%	656.9	$12.39	100.0%
Adj. to Domestic Mix		$ 3.71			$ 6.73			$ 6.53			$ 6.56			$ 6.63	

Source: MRCA Consumer Diary Panel

*Current Dollars

WOMEN & GIRLS

APPAREL DOMESTIC: Share of Key Categories

	1974			1981			1982			1983			1984		
	MM Units	Avg.Price*	Share	MM Units	Avg.Price*	Share	MM Units	Avg.Price*	Share	MM Units	Avg.Price*	Share	MM Units	Avg.Price*	Share
Coats	51.2	$30.46	1.2%	44.8	$50.08	0.9%	36.4	$51.17	0.7%	33.6	$54.19	0.7%	34.0	$53.04	0.7%
Suits/Blazers	91.3	22.15	2.1%	56.6	38.92	1.1%	67.7	36.91	1.3%	66.4	42.30	1.3%	62.5	41.08	1.2
Dresses	246.9	17.12	5.6%	257.8	23.08	5.0%	239.6	23.00	4.7%	244.3	26.25	4.7%	245.2	26.20	4.7
Skirts	68.9	9.14	1.6%	247.2	16.23	4.8%	139.9	16.68	2.8%	145.0	16.16	2.8%	144.5	16.00	2.8
Shorts	43.4	3.87	1.0%	64.5	6.01	1.3%	92.1	6.60	1.8%	97.1	6.90	1.9%	104.7	7.10	2.0
Slacks	190.4	8.75	4.4%	194.8	12.02	3.8%	256.3	12.65	5.1%	251.5	13.15	4.9%	268.8	12.64	5.2
Jeans	92.9	7.54	2.1%	201.0	14.48	3.9%	151.2	15.00	3.0%	142.0	15.60	2.8%	134.0	15.40	2.6
Blouses/Shirts	475.3	6.44	10.9%	734.8	10.07	14.4%	758.1	10.23	15.0%	746.3	10.36	14.5%	701.6	9.97	13.6
Sweaters	87.9	8.18	2.0%	162.5	13.27	3.2%	131.2	13.27	2.6%	149.7	13.74	2.9%	172.0	14.24	3.3
Underwear	1015.9	2.04	23.2%	845.6	3.45	16.6%	788.3	3.42	15.6%	800.5	3.62	15.6%	820.4	3.72	15.9
Nightwear	214.4	6.13	4.9%	237.3	9.97	4.6%	228.1	9.71	4.5%	245.2	10.27	4.8%	240.7	10.10	4.7
Hosiery	1649.0	0.93	37.7%	1877.5	1.29	36.7%	1865.4	1.37	37.0%	1900.6	1.43	37.0%	1909.5	1.47	36.9
Other	144.4	5.26	3.3%	184.7	7.62	3.7%	295.9	7.96	5.9%	316.3	8.43	6.1%	330.9	8.64	6.4
Totals	4376.4	$ 4.67	100.0%	5109.1	$ 7.50	100.0%	5050.2	$ 7.46	100.0%	5136.5	$ 7.72	100.0%	5170.4	$ 7.65	100.0%

Source: MRCA

*Current Dollars

WOMEN & GIRLS

APPAREL IMPORTS: Share of Key Categories

	1974			1981			1982			1983			1984		
	MM Units	Avg.Price*	Share	MM Units	Avg.Price*	Share	MM Units	Avg.Price*	Share	MM Units	Avg.Price*	Share	MM Units	Avg.Price*	Share
Coats	12.8	$19.95	3.4%	23.8	$32.76	3.8%	33.5	$33.16	4.1%	39.3	$34.10	4.2%	40.7	$36.40	3.9%
Suits/Blazers	6.3	21.43	1.7%	11.3	35.81	1.8%	16.9	32.79	2.1%	17.6	36.07	1.9%	21.1	33.08	2.0
Dresses	9.9	17.51	2.6%	19.5	24.69	3.1%	26.6	18.71	3.3%	36.9	23.03	3.9%	43.0	34.45	4.1
Skirts	2.5	9.44	0.7%	18.9	16.12	3.0%	16.1	15.57	2.0%	19.5	16.17	2.1%	24.7	26.57	2.3
Shorts	12.6	2.54	3.4%	13.3	5.99	2.1%	30.6	6.23	3.8%	37.8	7.16	4.0%	60.4	7.76	5.8
Slacks	20.1	6.12	5.4%	18.9	16.77	3.0%	35.9	13.91	4.4%	45.4	13.47	4.9%	57.0	14.08	5.4
Jeans	11.6	5.47	3.1%	43.4	15.13	6.9%	38.6	14.06	4.8%	43.9	14.30	4.7%	45.7	14.63	4.3
Blouses/Shirts	124.8	4.62	33.3%	215.2	9.08	34.4%	293.9	8.67	36.2%	322.7	9.63	34.5%	337.3	9.93	32.1
Sweaters	61.4	7.73	16.4%	121.6	14.69	19.4%	137.6	14.12	16.9%	157.9	14.61	16.9%	174.9	16.91	16.7
Underwear	41.2	1.57	11.0%	80.5	3.63	12.9%	96.0	3.65	11.8%	114.6	3.76	12.2%	132.9	3.93	12.7
Nightwear	8.1	4.78	2.2%	18.8	7.87	3.0%	23.9	8.76	2.9%	24.2	9.11	2.6%	27.2	10.74	2.6
Hosiery	36.6	0.88	9.8%	18.4	1.28	2.9%	15.3	1.51	1.9%	20.0	1.32	2.1%	20.9	1.45	2.0
Other	26.7	3.70	7.0%	23.3	7.42	3.8%	47.5	8.80	5.8%	56.2	9.60	6.0%	76.6	10.15	7.3
Totals	374.6	$ 5.62	100.0%	626.1	$11.74	100.0%	812.6	$11.25	100.0%	935.2	$12.07	100.0%	1050.4	$12.53	100.0%
Adj. to Domestic Mix		$ 3.94			$ 7.60			$ 6.93			$ 7.43			$ 7.72	

Source MRCA Consumer Diary Panel

*Current Dollars

Chairman GIBBONS. Well, I appreciate the sincerity of your statement and of all the other statements. Obviously there are problems in the garment and textile industry in the United States, and that's why we've commenced these hearings to try to find a solution.

We're going to be looking at the copper industry, too. Unfortunately we won't get up to Utah, but we will be in the Arizona area during this Easter recess period. Some members of the committee will be out on the road working and looking, trying to find out what the solution is.

I don't want anybody to think I think the entire problem you're facing is due to what I'm about to describe. I want to commend you all for surviving in this economic environment that we have here in the United States. The United States has been running a fiscal deficit of about $200-plus billion now for over 4 years, and the chickens are coming home to roost. They're coming home, and it's going to be bitter medicine. That kind of deficit is highly inflationary, and the only way to offset it is a very restricted monetary policy. And we've had a very restricted monetary policy, the highest real interest rates in the world, the highest in American history, that has stifled the ability of business to expand; it has stifled the ability of young people to get housing over their heads; and it has turned America into a great foreign capital market. We are borrowing now so much money to meet our everyday needs, from foreigners, that the value of the dollar has been forced way—or inflated, I should say—way over its normal value.

That acts like a tax on anything that you may try to export, but it also—even more seriously, in your case—acts like a subsidy to your foreign competitors.

I'd like to tell you we could change these rules enough, these trade rules enough, to overcome that, but I'd have to be lying to you if I told you we could. I don't think we could. We've got to get down to basics and solve our basic, fundamental problem, that is, that we're following the wrong economic policy mix for this country. Until we do that, we're just tinkering around with the furniture on a badly leaking ship.

Frankly, I look upon you all as the survivors, survivors of what I think is a terrible economic policy. We can't run these fiscal deficits; there is just no way around it. That's why I'm glad Mr. Jenkins is serving on the Budget Committee, because his influence there is going to be incalculable. He's a good, solid man, and he understands this problem.

But you know, Mr. Finley, I am surprised. I thought that those shirt cost differences would be even greater than you show them there.

Mr. FINLEY. Well, that shows you how honest we were in the presentation.

Chairman GIBBONS. Yes, I'm impressed with that. It certainly leads to your credibility.

Mr. FINLEY. We didn't pick and choose.

Chairman GIBBONS. I've been to Hong Kong—I guess most Congressmen have been to Hong Kong—but I've also been to Colombia and Guyana. That's where that one was made, in Guyana, is that right?

Mr. FINLEY. Right.

Chairman GIBBONS. And I'll tell you, I'm sure that wages in that area are very, very low. That's the lowest one that you've got on the scale there, isn't it? No, that one over there from Colombia is even lower—no, it's about the same. But I can see the problem you've got.

I was really impressed. We thought their costs would have even been lower than that.

How did you get costs that high, $7.50 for the United States and, say, only $5.43 for Guyana? Or is that $6.43? I can't tell from this angle.

Mr. FINLEY. It's $5.43.

Chairman GIBBONS. It's $5.43.

Mr. FINLEY. It's not all wages, Mr. Chairman.

Chairman GIBBONS. It's not all wages?

Mr. FINLEY. No, no, no, no. It's not the wages; it's the total costs of the garment in terms of the retailer, what they paid for it. There's shipping costs and some other costs involved in there that they calculated. They might be calculating some markdowns and so on, lead times, I'm not sure.

By the way, Mr. Chairman, let me—just to make clear, that's the cost of what the retailer paid for it.

Chairman GIBBONS. That includes the quotas and all the other things?

Mr. FINLEY. Right. That's the cost to the retailer.

Chairman GIBBONS. The whole smear.

Mr. FINLEY. And you see the difference in the markup.

Now, the reason—we didn't pick and choose, because this happened to be a known brand it came from four sources, so we looked at those, and we weren't trying to find the biggest horror stories; I mean, this is just a simple one, that you can walk into one of the major retailers and you can see it yourself. And we just thought this would be an example.

And you know, percentagewise that's a major difference, by the way, Mr. Chairman, if you consider the millions of shirts involved. You know, that's a lot of dollars.

Chairman GIBBONS. Yes.

Mr. Gregg, you said you could compete anywhere if, and I missed the "if."

Mr. GREGG. I think the comment I was making, Mr. Chairman, was that our industry is a very efficient industry. It's a world-scale industry. We can compete head on with the competition. We don't get an opportunity to compete head on. There are certain countries—it was described earlier about barriers, as an example. There are many countries that have a licensing policy. They say that they have free trade, but when you look at when they last issued a license, you have to raise a question in your mind, do they really have free trade? It doesn't matter what their tariffs are, because you're not going to ship anything in there.

Chairman GIBBONS. I've got you.

Do you have troubles with subsidies in your industry, government subsidies in foreign countries?

Mr. GREGG. Yes, sir, we do. In our industry there was one particular fiber, the rayon industry, that has had successful countervailing duty as well as dumping cases against a group of European producers. We didn't have much trouble proving that.

Chairman GIBBONS. All right. Mr. Jenkins?

Mr. JENKINS. Thank you, Mr. Chairman.

I want to apologize to the panel for being out for part of your testimony. I want to express my appreciation to each of you for your support of the bill that I've introduced, H.R. 1562. I recognize that there is a great deal of controversy about it. Before I ask a question, I want to comment that many people, including the chairman and others, including the administration, incidentally, say that the real problem that we have is the fiscal deficit and once that is cleared up, we will be in fairly good shape.

As a member of the Budget Committee and from looking at the prospects for the future, if you have to resort to the prospect of a balanced budget before your problems are cured, you have little likelihood of success in the immediate decades ahead. How long can you survive as an industry if no changes are made in present policies? Mr. Martin.

Mr. MARTIN. Well, the industry, as you know, Congressman, is made up of various sectors, but let's take the cotton part of it, if you would. We figure that if 1984 growth is repeated, that within 5 years—the cotton textile industry—and that would mean that the cotton farmers of the United States would have to try to sell all of their cotton to foreign countries instead of us. It's hard to say how long the home furnishing industry would last at the current rate.

But let's take the competitiveness, if you will, of our own industry. I just read that some of our larger companies are going to move out of apparel and are going to become more "nimble," I think is the word, and we're going to move from the apparel/fabrics into home furnishings. Well, we've seen this sort of thing take place over the years; I certainly have. And all it does is crowd that market to the extent that the investment there doesn't look too good.

But I think that the best thing for me to say is that I have been around the world quite a bit in the last 2 or 3 years; as a matter of fact, I am surprised that I have reached this age. I never thought that I would be around the world. And I am convinced that there is not one single thing in the United States—one single thing that's made in the United States—that can't be made cheaper somewhere else in the world. And that includes all textiles, all electronics, all bicycles, all baseball bats, all everything. And if that's the scenario, I feel rather sorry for my grandchildren because I just don't think we're going to be able to exist without any industry. Our industry in total, if I had to make a guess at the current rate—I just don't think we'll be around in 10 years. And I've already told you what I think about the cotton thing; that's pretty much settled.

One thing that John Gregg didn't mention and I'd like to mention in regard to manmade fibers. We have that technology; we developed the technology; we are very efficient; 37 percent of the world's production of manmade fibers is no longer in the United States; it's by foreign countries. And it's being developed very fast in the Orient.

So, you know, the future just doesn't look very good. And when I say that I feel—and I apologize for using strong words; you weren't here—I said I feel an outrage. I feel outraged because we think that we've got a bona fide complaint, if you will. We feel like that we're representing a number of American people that deserve a better shake than we've gotten, and we're outraged because we're frustrated. We don't seem to be able to get anywhere.

But thank you, all, for all you've done.

Mr. JENKINS. Thank you, Mr. Martin.

Mr. Mariani, you mentioned the copper industry together with the apparel industry out in Utah. I might say that it's not necessarily management. A copper industry with 900 employees has just closed in my district, as well, announced 2 weeks ago. The only industry they have left, which happens to be in McKaysville, GA, and Copper Hill, TN, is an apparel manufacturer with 300 employees. So you can see how stable that particular economy is in that little town.

Mr. Gregg, you say that you've just laid off 700?

Mr. GREGG. Yes, sir.

Mr. JENKINS. What is the balance of the manufacturing? I'm assuming this is in a rather small town?

Mr. GREGG. Yes, sir; it is.

Mr. JENKINS. What other manufacturing do you have there?

Mr. GREGG. We have virtually nothing left there. We will have about 47 people on the payroll out of roughly 750 that we have on the payroll today. We had roughly 1,100 on the payroll 4 years ago, so that particular plant has been declining over a period of a few years as the apparel imports have grown in this country.

Mr. JENKINS. What is the population of the area, of the town?

Mr. GREGG. Congressman, I think the general population in the area is probably around 19,000.

Mr. JENKINS. Are you going to be able to move these 1,100 into high-tech jobs in that town?

Mr. GREGG. No, sir; we're not. It's a sad situation in this town. It's gone through a number of industry losses. The zipper company, Talon Zipper Co., was a very large employer. They've had their problems with imports. We had a very large ConRail operation in that town; that's been dissolved. We're about the last shot that that town has. There is no high tech there. There's no way for those people to move. I don't know who's going to buy their real estate, who is going to buy their houses.

Mr. JENKINS. Well, who is going to buy from the retail merchants?

Mr. GREGG. That's another very good question.

Mr. JENKINS. They're going to appear in a few moments. I was just wondering, do you think that retail sales are going to go down in that time?

Mr. GREGG. I would guarantee it.

Mr. JENKINS. Maybe we'll have a retail merchant from that particular town. What is the name of it?

Mr. GREGG. Meadville.

Mr. JENKINS. Meadville. I'll ask a few questions about that.

Thank you, Mr. Chairman.

Chairman GIBBONS. Yes, sir.

Mr. Schulze.

Mr. SCHULZE. Thank you, Mr. Chairman.

When the chairman was discussing the high value of the dollar, it seems to me that really doesn't come into play too much. We're not talking about a free market situation. And maybe Mr. Gregg—I don't know whether his products are in direct competition with overseas production, but we're talking about pretty much a divided market. And it seems to me with the stress and problems we're under right now, we're the dumping ground for every other nation in the world. And it seems to me we ought to be talking about the future and what we can do.

First of all we have to decide, do we want a textile industry in this country? And if we do, what we're going to do to keep it. And so, it would be helpful for me if you would give me your thoughts on how we should structure an international agreement that would have some teeth in it, that would point to the survival of the textile industry as well as retain a degree of competition. You know, I don't think any of us want to just build up walls and say, "We're going to do just what we do here, and to heck with everybody else." But give your thoughts on that if you will, please—Mr. Finley?

Mr. Finley. Mr. Schulze, I'd like to respond to one part of it. And this is sort of a comment on what the chairman mentioned about the dollar. The dollar is a problem in terms of United States; don't misunderstand.

We are completing a study on the effect of the high dollar on the textile/apparel imports because that's a legitimate and necessary thing to look at. Is it an issue of the dollar, or is it an issue of something else?

And we've looked at the top 25 countries which ship textiles and apparel to the United States and which account for about 95 percent of our imports. And our analysis—and when the study is finally drafted, we'll send copies to the committee—our analysis shows that the import growth from the European Community and Canada can be explained by the exchange rate changes, but this only accounts for no more than 10 to 15 percent of our total imports. If you look at the rest of the imports, there's almost no correlation between the strength of the dollar over the last 10 years. A number of the countries that are major exporters to the United States have a stable exchange rate with the dollar during this whole period—Malaysia, Singapore, Taiwan, the Dominican Republic, Egypt, for example.

A number of others, such as the People's Republic of China, Hong Kong, the Philippines, India, and Pakistan have shown very little exchange rate changes relative to the dollar except in the last year or so. But even before the last year, their exports to the United States were mushrooming. So there's no correlation in terms of the imports of this country in terms of the dollar and the exchange rate, except Canada and the European Community which was discussed earlier, and that only involves 10 or 15 percent.

Mr. Schulze. With a world oversupply of textiles——

Mr. Finley. I wanted to just mention that, so the issue of the dollar—which, I submit, is an important economic issue in this country—it will not——

Mr. Schulze. It is not it alone.

Mr. Finley [continuing]. Continually solve the problem of textiles and apparel.

Mr. SCHULZE. I agree. Thank you. That's why we shouldn't blind ourselves by looking at that alone.

With the world oversupply of textiles, which we will have to agree there is, do nontariff barriers or barriers in other countries, whether it be Japan or whoever, who for some reason bar imports into their country, do they have an effect on our market here? Do we then end up as the recipient of goods which probably should legitimately compete with other countries?

Mr. FINLEY. Well, one response, when the European Community effectively keeps out imports, we end up being the area where they're diverted to. There's no question about that. When they stop imports there, then they're diverted here.

Mr. SCHULZE. Well, I asked this morning whether there are any tariff or nontariff barriers in the EC, and the response was no. Do you disagree with that?

Mr. MARTIN. We didn't say that, I don't think.

Chairman GIBBONS. They corrected their statement after that.

Mr. SCHULZE. Oh, they did.

Mr. MARTIN. Mr. Congressman, may I address one question?

Mr. SCHULZE. Sure.

Mr. MARTIN. This morning we were talking about the growth of textile production in the world. Well, we absorbed 75 percent of that growth in 1984, and there is a limit on what we Americans can consume. I don't know whether you heard me make that point or not.

You know, the next highest consumers are perhaps the EC, and they're about half of what we consume. And there's Japan.

Mr. SCHULZE. Is there a simple formula we could rely on and say, "What's good for us is good for EC and good for Canada"—a worldwide formula? And those who grow beyond this have to eat their own textiles?

Mr. MARTIN. Well, I think another way of putting this—and what you are saying is there may be an overproduction—but what we need is more international consumption rather than international trade. It would be wonderful if some of the other countries, the developing countries, if you would, would see to it that their people could consume more. But in answer to your question, I'd like to have the opportunity as a textile manufacturer to do what is done in some foreign countries—whose names I won't mention at the time, but they ship a lot of stuff in the United States. Their textile industry issues the import licenses. Now, that's sort of like the fox and the henhouse. I'd love to be in that position.

Mr. SCHULZE. That might be one of the solutions. But it's very complicated, and——

Mr. MARTIN. Yes, I know that. The answer is, of course, that to give us a chance and to keep our people employed, as we've said a thousand times, we've got to tie imports to the growth of this market. We have to keep it that way. We have to control the quotas, if you will.

Mr. SCHULZE. Could we tie it to the world, to the growth in the world market? World consumption of textiles; let's say we took the previous year. I guess there'd be some lagtime in the statistics, but the previous year's growth, or consumption——

Mr. MARTIN. Consumption of fiber, or whatever.

Mr. SCHULZE [continuing]. Or consumption of fiber in the world, and said each nation would be allowed—if this is one-half of 1 percent, or 2 percent, or 3 percent— we'll absorb 3 percent this year, but everybody else would have to absorb that. We're not going to take any more than that. You know, let's everybody share in it equally. And maybe we'd have to have some special things for the LDC's and that kind of thing. But it seems to me that we've got to say that we're not just going to be the dumping ground for everybody's overcapacity. We believe in competition, but there are limits to this.

Mr. MARTIN. Absolutely.

Mr. FINLEY. Congressman, in response to your question about barriers, you cannot sell into Korea or Taiwan. They have licensing agreements, and there's no way you're going to get your products in there, forgetting the price. There's no way.

And you asked the question, I think, directly, are there barriers to us exporting? Two out of the major four or five exporters to the United States, South Korea, and Taiwan, have licensing agreements which effectively prevent anybody from here selling textiles or apparel to them.

Mr. SCHULZE. What would a 20-percent tariff increase across the board do for the textile industry? The reason I asked that is—and I won't load it—I have a bill which would put a 20-percent increase on tariffs, which could be eliminated by negotiating a bilateral treaty with us in which we would presume that tariff and nontariff barriers would be dropped, and we would deal with each other as equals. So my question is, what would it do to or for your industry if a 20-percent——

Mr. CHAIKIN. Congressman, may I be permitted to respond to that?

I represent workers in the apparel industry. Now, the economics of the apparel industry are somewhat different from those of the textile manufacturing industry. May I respectfully say that it wouldn't do a thing to keep out items of ladies' and children's apparel——

Mr. SCHULZE. A 20-percent differential is not enough?

Mr. CHAIKIN. Absolutely not, and I'll give you the figures, and they're readily apparent to you.

The fact of the matter is that we're a labor-intensive industry. When you compare the wages and wage costs of a garment that's made in the People's Republic of China at around 21 cents an hour—that is the actual wage plus the subsidy and the wage costs—to about $7 an hour, which is the wage, plus the fringe benefits, and the taxes that American manufacturers have to pay, unemployment compensation tax, Social Security tax, workmen's compensation, added to a week's vacation with pay, and some holidays, and some Blue Cross/Blue Shield—now, that great disparity in the wage costs obviates any relief from the point of view of tariffs because the tariff is on the actual value, the declared value, of the import.

Now, you may not have heard my colleague Murray Finley say that when our representatives of the ILGWU and the Amalgamated Clothing & Textile Workers' Union were in Indonesia, they visited a factory making children's clothing. And that employer, the owner of the factory, said he was getting $1.22 an item for his work, for the fabric, for the commission to the Hong Kong merchant who got him the deal, and he had to preticket the merchandise; he put an American ticket on the merchandise signifying what the retailer was selling that product for, and the price was $9.95. So if you put a 20-percent tariff on $1.22, which is the declared value, or could be the declared value, or should be the declared value, what difference does it make?

Mr. SCHULZE. Mr. Chaikin, maybe you can answer another question for me. Historically—let's say through the late thirties and early forties—labor was 75 to 80 percent of the cost of manufactured goods in this country. This is an overall average. It's come down to the point now where it's about 17 percent. How does the textile industry relate to that ratio or that formula? It seems to me that the textile industry has gotten much more capital intensive with huge machinery, and modern, sophisticated computers, and so forth that run these things.

Mr. CHAIKIN. Well, the fact of the matter is that my colleagues, who are most familiar with the manufacture of fabrics, which is what is commonly called textile mill products, et cetera, know better than anybody else in this country that they've plowed back billions and billions of dollars into making the textile manufacturing industries much more capital intensive, and very, very efficient, and productive. As a matter of fact, if it weren't for that, they would have lost a lot more of their market; there would have been many more millions of square yards of fabric entering the United States of America, but they have been fighting back in the best way they know how. But they just can't overcome that tremendous wage advantage. The comparative advantage of these countries overseas is their abject poverty—their abysmally low standard of living.

Mr. SCHULZE. Do you see in the future that there's a possibility ever of transportation reaching the point where we get some kind of equalization, or are we just going down the tubes?

Mr. CHAIKIN. Congressman Schulze, in the apparel industry, which is separate and apart from the textile industry—as you have heard, the domestic apparel industry are customers for about 50 percent of the American textile manufacturing industry—we will go down the tubes, absolutely, inevitably. And you asked the question before, in how many more years? Well, if in the next 5 years the increase in imports increases by 19 percent—we are now at a point where we've lost half the market; 20 percent of half the market is another 10 percent, and 20 percent of 60 percent of the market in the second year going forward. And in the third and fourth years going forward, inevitably we come down to zero, if that is continued at that rate. The only thing that would help us is this bill. This bill will stabilize import penetration into the United States at an enormously high percentage of the domestic market. If the President of the United States took steps to limit the import of steel to about 18.5 percent of the domestic market—if we battled the Japanese, up to just a couple of weeks ago, and forced upon them a voluntary export restraint so that they could not take more than 21 percent of the then-domestic market—we are being most generous in suggesting a bill that would permit to exporting countries overseas, the less developed countries, the developing countries, and indeed the developed nations, too, who export to us, at least 38 to 40 percent of our domestic market. And then we say, as we go forward, they will be able to share. We're not even holding them stable or status quo. Even those that have a large share of our domestic market now would get, under the terms of the bill, an opportunity to export more.

But we also say that those that now have a very small share, the developing nations, the less-developed nations, the poorer nations, that they would be able to increase their share of our market by 6 percent a year.

Now, we believe that that will introduce an element of stability that will give us an opportunity to take a few deep breaths. Now, whether or not 5 or 10 years going down the road, something else may be necessary, of course I cannot predict, and I wouldn't dare do so. But I do know that so far as the domestic ladies' and children's apparel industry—and to a large degree what I say is also true about the men's clothing industry—what we need are essentially the elements in H.R. 1562.

Chairman GIBBONS. With that, the bells are tolling for us, and we'll be right back.

[Recess taken.]

Chairman GIBBONS. I'm sure you were glad to take that little break. The exercise helped us, too.

All right, Mr. Schulze, you go right ahead.

Mr. SCHULZE. Thank you, Mr. Chairman.

To state myself another way, does anybody on the panel have industry figures on the average percentage of labor in the finished product and how that has changed over the last 20 years? Is it static or—Mr. Gregg?

Mr. GREGG. Let me attempt to answer only a part of it, the part I know well, the finished fiber.

Labor content in manmade fiber and in the basic chemical industry that supplies manmade fiber has continued to decline over the last 10 years. The use of microprocessors has been phenomenal in terms of what you can do with a product that's basically determined by time and temperature.

Our labor cost today is under 10 percent; I mean, our total cost of labor in that product is under 10 percent. We are extremely competitive. Many of our customers have done the same thing in the textile business, the weaving of fabric, the knitting of fabric. They've brought their labor content down. I might add, though, that after doing that we're still frustrated because it's taken a lot of capital to get to that point. We're denied the markets outside this country, and so we're sitting here with one customer, and that is the domestic apparel market. And when you deal with countries that have closed borders, for whatever reason, and you've got nowhere to go, our industry is certainly reevaluating its investment policy.

Mr. SCHULZE. I think that's very important, and I think that anything that you can give us to back that up strengthens the argument that we need to do something here. It's not inefficiency; it's not a matter of the industry not caring and just riding on the gravy train, milking profits and walking away from it. From what

I've heard and seen about the textile industry, this is absolutely untrue. The money has been plowed back in. They are trying to be efficient, trying to save jobs, trying to serve the domestic industry, but have found it virtually impossible.

Mr. GREGG. I think there is another point that goes with that. We have built world-scale plants to be competitive. There is a level of polyester production, as an example, that you have to have if you're going to be competitive on a worldwide basis. And with that, we built coal-fired boilers, electric generation plants, all to make us competitive.

Now, you can't run a piece of that plant. You've got to run that entire plant or you don't run it, because you've got that whole fixed cost based on a large volume. That's why you're seeing one plant after another go out of business because it's not a question of just running a piece of a plant. You either run it all or you don't run it.

Mr. SCHULZE. Manmade fibers are mainly petrochemicals?

Mr. GREGG. No, sir. Manmade fibers are petrochemical-based, and they are also cellulose-based. We are a large consumer—our industry is a very large consumer of wood products out of Alaska, out of Washington State, Oregon, Georgia, Florida, the gulf coast. They produce the woodpulp that we convert into rayon fibers and into acetate and triacetate fibers. So we're both cellulosic and petrochemically-based.

Mr. SCHULZE. What percentage, roughly, is cellulose and petrochemical?

Mr. GREGG. I'll get the number for you. I don't have it off the top of my head.

Mr. SCHULZE. The reason I asked that, some of the Middle East countries, which are rich in petrochemicals, are spending a lot of money on value-added-refining processes. Is that going to impact on your portion of the industry downstream, or don't you see that as a problem?

Mr. GREGG. No, I think it is going to have an impact on our industry. I think that there will probably be an attempt for them to come into this market. I think that you could very easily see chemicals being imported into the United States that we've never seen imported before. It's going to put more pressure on our fiber industry because our fiber industry is basically an integrated industry.

Mr. SCHULZE. John, do you have any overseas operations?

Mr. GREGG. No, sir.

Mr. SCHULZE. Have you considered it? Would it pay you to go overseas? What are the advantages and disadvantages to you, as the president of a company today, to take your operation overseas or leave it here?

Mr. GREGG. You really can't take it. If I could characterize one of my plants that's very close to here, in Front Royal, VA—it's about 60 miles west—that plant is 65 acres under roof. It has a very modern electric-generating facility there, coal-fired boilers. You can't build another plant like that anywhere in the world. Government can; that's why you're seeing these plants come up in the Far East that are government-owned. Those are the people that we're competing with. I could never get the capital, if I wanted to, to go to another country and build a facility like we have just west of Washington.

The other thing is that we're totally competitive. The only thing that we don't have access to is an apparel market.

Mr. SCHULZE. OK. I thank you, gentlemen. Does anybody want to add anything?

I presume it's the consensus of the board that Mr. Jenkins' bill is at least a step in the right direction, and the way we should go.

Mr. GREGG. Absolutely.

Mr. CHAIKIN. Yes, sir.

Mr. FINLEY. Oh, yes.

Mr. SCHULZE. Thank you.

Thank you, Mr. Chairman.

Chairman GIBBONS. Mr. Campbell.

Mr. CAMPBELL. Thank you, Mr. Chairman.

Two or three things. Mr. Gregg, I want to ask you a little bit about closing down a plant again. I have seen somewhere, and perhaps you have or perhaps someone else has, the ripple effect of losing manufacturing jobs. We always see studies as to what the cost is for protection and so forth as opposed to, say, an apparel worker or a textile worker. But what is the cost of the ripple? I saw something somewhere as to how many school children there were in a community, how many dentists would be there, how many drug stores would operate, how many automobile dealerships would be there, how many grocery stores would be there. And the fact was that the manufacturing jobs were not, in themselves, the whole story, that there were all of these other jobs that were contingent upon that manufacturing plant being there.

Has anyone got that information? I've seen it; I know the ATMI people had it at one time—I see Mr. Martin's gone—I've seen that sort of information before. But I just think it would be interesting to this committee to have some look at what has been done on ripple effects of closing down with respect to how many jobs are impacted.

Do you know anything about that, Mr. Gregg?

Mr. GREGG. We have that information in ATMI. It is not updated; it's probably 2 years old. We would be happy to submit what we have, if that would be of help to you. I think it would certainly be a guide.

Mr. CAMPBELL. Well, I think it would be most enlightening to members of this subcommittee and other Members of Congress and the general public to see what we're talking about. I noticed in the testimony—and I've forgotten whose testimony I was reading; I was trying to read everybody's—but they were talking about the cost of a job, quotas in Hong Kong were $34,000, and that was disputed, saying there was a cost of $12,000, and that was roughly the salary of a textile worker. But that's a static comparison; that's not comparing even the little grocery store that's going to shut down on the corner because of a loss of a certain number of jobs. And I think that if we're going to deal with this subject completely, that that kind of information is vital.

Mr. SCHULZE. Will the gentleman yield?

Mr. CAMPBELL. Certainly. I'd be happy to yield to my colleague.

Mr. SCHULZE. Recently we looked into this, and most standard econometric models use as a basis 2 to 1. Now, depending on the type of the community and the types of payrolls in the community, it can vary by a few degrees or tenths of percentage points, but you would not be far off if you used between 1.9 and 2.1 or 2.2 as a basis. And for the small town, it may be higher than that.

Mr. CAMPBELL. OK, so 2 to 1, and obviously the more dependent a town is on a given industry, then probably we would go up from that point. And when we look at a 2-to-1 loss in it, then, of course, we begin to get another set of figures to start comparing as to what we are doing when we try to keep our people working. And I think that that is something that we should look into in great detail, and I think that we should put it in the equation.

I'm most impressed with the fact that the industry has spent as much as it has on research and development and modernization. I've seen some various figures on productivity increases over the last couple of decades. I wonder if anyone could tell me what we're talking about in productivity increase, say, from mid-to-late 1960's to now? Mr. Mariani?

Mr. MARIANI. Congressman Campbell, I have a figure here for our apparel industry. In the last 10 years we have improved productivity at an annual rate of 3.4 percent, which is nearly double the 1.9 percent average for all manufacturing. So we have shown significant improvements in productivity in the apparel industry.

Mr. CAMPBELL. Thank you.

Mr. Gregg?

Mr. GREGG. For the man-made fiber industry, our productivity has increased 2½ times since 1967. For the textile industry, I believe it's running about 4 percent per year.

Mr. CAMPBELL. Four percent per year increase in productivity?

Mr. GREGG. Right.

Mr. CAMPBELL. You know, we've often heard other people say that industry in this country prices itself out of the market, and this sort of thing. Someone gave me an average wage a while ago, an hourly wage. Mr. Chaikin, perhaps you could give that to us again. Could you tell me what it is in the apparel world?

Mr. CHAIKIN. Sir, I'd be happy to do that.

The average wage of an apparel worker, union and nonunion, north, south, east and west, is somewhat below $6 an hour. The average value of the fringe benefits, including mandated taxes like unemployment compensation, Social Security taxes and Workmen's Compensation, would probably, together with the other fringe benefits, which are quite low—and I might say, parenthetically, inadequate—probably brings a $5.75 an hour average up to a total wage cost of $7.50 an hour.

Mr. CAMPBELL. So in the context of a society like we live in, we aren't talking about a high wage industry that's pricing itself out of a domestic market; is that correct?

Mr. CHAIKIN. You are exactly correct. The wages in the textile, apparel, and clothing industries across the country are probably in the lowest 10 percent of industrial wages in the United States.

Mr. CAMPBELL. I was interested a while ago, and I'd like to go back to it—and I believe, Mr. Chaikin, you mentioned this—as we talk about the problems that we have with competing with other nations—I think that Mr. Martin made the comment that everything can be made cheaper somewhere else. Then that begs the question, why? And I guess that what we are talking about is the quality of life differential. And if we can quantify quality of life differential for the United States vis-a-vis other nations, perhaps we can begin to get at the root of the problem, long-term.

In this country—just jotting down odds and ends that we deal with that impact this industry, things that we as a Nation have decided improve our quality of life, such as clean air and clean water; we are all for that. It costs a lot of money and it costs industry, and it goes into the cost of the product. Safe working places—we want health and safety rules, and they cost. They add to the cost. We want to dispose of waste in a responsible manner. Toxic waste disposal or other waste disposal costs money, because we want things clean in this country.

And the point I'm driving at is this, that we as a Nation have made decisions concerning the quality of life in America. Other nations, to differing degrees, have made other decisions concerning the quality of life in their countries. Do you think it's fair for us to impose upon American industry the cost of quality of life we have mandated by Government, and then ask them to compete with other nations which do not have to even approach the same criteria for quality of life? Is that not what our main problem is, long-term, here? Anybody that wants to address that?

Mr. CHAIKIN. Well, perhaps I might start.

Let me say at the outset that you're eminently correct in your assumption and your presentation, because I assume that the question you asked is more in the nature of a rhetorical question.

Mr. CAMPBELL. That's right.

Mr. CHAIKIN. But over and above that, Mr. Congressman, let me suggest that the entire American community has worked over the last couple of hundred years, since we became a nation and a sovereign nation, toward improving the standard of living of the average American. And we've done that through hard work and we've done that through commerce; we've done that through evolving out of an agricultural nation into an industrial nation.

Now, there isn't anybody in the United States who would want to bring our standard of living down to the level where Jim Martin's assertion would be incorrect, that we could make it as cheap as anybody else on this globe could make it.

Now, if the chairman of the committee has been to Hong Kong and if he's gone into the areas where the workers live and work and seen the kind of food that they eat, if he has, as I have, been to Thailand to see how garment workers live and eat, and if he's been to Seoul, South Korea and seen how those workers work and how they live, then he would know that his constituents in Florida would not stand for a diminution of their current standard of living to even come within a country mile of the way 3.5 billion people live in this world. And when you put together the factors of production, namely, capital and technology and know-how, the software of the art of corporate organization, in the process of making things in a factory, and you put them together with the only variable, which is wage costs, then you know that Jim Martin was absolutely correct when he said that there isn't a possibility that the

United States could compete, product for product, with apparel made overseas.

Now, that doesn't mean that every country in the world has the extraordinary technology that we may have in computers or computer-assisted manufacture. That does not mean that every country in the world has information at its fingertips to the extent that we have, nor at the speed we can get it through the use of these mainframe computers. That doesn't mean that every country in the world would be able to make some of the things that are necessary for an adequate defense, as indeed we have that capacity. But Jim Martin was talking about certain products, and he enumerated them. He mentioned a baseball bat. He mentioned an item of ladies' apparel, something like a square yard of fabric. Automobiles, for example—I hesitate, I shudder to think that 10 years from now, the People's Republic of China may have the capacity to assemble automobiles and to make parts for them. And the fact is that our great American automobile industry no longer makes a 100-percent "made in U.S.A." car. The car that's assembled in the United States, that we think of as a U.S.A.-made car, often has components that come from around the world.

Mr. CAMPBELL. OK. Let me, in tagging onto that, and we've heard a lot of testimony and you've heard other testimony by the administration witnesses and questions from members of the subcommittee—I'm driving toward this in conclusion, and that is that when we in fact seek to have responsible trade with other nations, and they said they didn't know the criteria exactly that are used for a call and for negotiating certain levels and all—somewhere in there there has to be, in the minds of the people of this country dealing with trade, the quality of life differential, and it has to be in our trade policy. And we'd better get it in our heads that we're going to have to do that, or else we are going to destroy some of our basic industries in the process. And then when we do, we are going to be, to some degree, lowering the quality of life in America. If we wanted to lower the quality of life, we could ease restrictions. We have made a collective decision in this country, a legislative decision in the Congress of the United States, of what we want as standards in this Nation. We have imposed those standards on all of our industry, and now there are those who say, "But let's have free trade and let everybody else that doesn't meet the standards that Government has imposed trade with you." That, to me, is absolutely misleading the public and everybody else in the process. We don't have a situation where it's private industry competing with private industry. We have private industry, in many instances, competing with other countries; but even besides that, we don't have our industry competing free and unencumbered. They compete with restraints that are put upon them by the U.S. Government; and I believe, and I hope you do, that it is incumbent upon us when we place those restraints to at least try to equalize that playing field, and I've gone back to it time and again, to allow our people to compete. If they can't compete then, then that's too bad. But we cannot tie a ball and chain to their left leg and tell them to go out and run the 100-yard dash against somebody that doesn't have a ball and chain on their leg.

And that's a strong feeling that I have. I'm delighted to hear your support as a panel for the legislation put in by Mr. Jenkins. That legislation has, I understand today, 180-some-odd sponsors, and there is concern, and deep concern, about what's going on.

Mr. SCHULZE. Would the gentleman yield?

Mr. CAMPBELL. Certainly I'll be glad to yield.

Mr. SCHULZE. I wonder whether you gentlemen could tell me whether country of origin regulations have made any difference or had any impact.

Mr. CHAIKIN. Well, it's made a very slight difference. It's scared the daylights out of those importers who have been participating in the violation of the MFA. When they have used up the opportunity to produce in one country, which has filled up its quota, then transshipped the goods to another country for just an additional simple operation, and then shipped it into the United States as though it originated in the second country, which is either not under quota or which has not filled its quota. Now, there's a temporary aberration in the market. There was concern in the market that these importers would not be able to get their goods as, theoretically, they expected to get their goods.

What the operation will be as we go forward, at least we'll have—if it's enforced properly—a plug for leaks in the enforcement of the MFA. We've always felt that if the MFA was enforced, both in the letter and in the spirit of the MFA, we would not be hurt to the same extent as we apparently find ourselves being harmed today. It's not the entire answer; I would rather put my money on Mr. Jenkins' bill because, as I indicated in the past, it would serve to add a stabilizing factor to the horrendous bloodletting that has been taking place in the apparel industry. And when the bloodletting takes place in the apparel industry, of necessity, the bloodletting reflects and begins to take place in the textile manufacturing industries in the United States.

Mr. GREGG. The only comment I would make, if I could just hitchhike on his comment: I think it's closed some loopholes but it hasn't solved the problem.

Mr. SCHULZE. But it's better than not doing anything?

Mr. GREGG. Absolutely.

Mr. CAMPBELL. It's one step. And I've overused my time, and I want to thank you very much for your patience in this as we work through it. I have enjoyed hearing your testimony.

Chairman GIBBONS. Mr. Jenkins.

Mr. JENKINS. Thank you, Mr. Chairman.

I want to ask Mr. Gregg—and I regret Mr. Crane is not here, because he brought up a point a few moments ago which I thought was a good point in asking what part the textile industry plays in the defense of the Nation. You mentioned that you had a plant down in Front Royal that was near there, that was a large plant. Do you by any chance manufacture anything for either the space shuttle or the Defense Department?

Mr. GREGG. Yes, we do. As an offshoot of the production of that plant we were able to come up with a carbon yarn that is used in the space shuttle. The particular yarn made in Front Royal is a very pure cellulose fiber that is carbonized; it becomes part of the solid booster rocket on the space shuttle. It's also involved in the

MX, Triton, Minuteman developments. It's a specialty fiber, if you would, Mr. Jenkins.

Mr. **Jenkins**. Is that a small part of your operation?

Mr. **Gregg**. Yes, it is.

Mr. **Jenkins**. Will you be able to continue to operate for the Defense Department if the present flow of imports continues?

Mr. **Gregg**. No, sir; the problem that you have is a point that I brought up earlier. You have a large plant there; you have a large fixed-base operation, and the survival of that plant is going to be determined by the survival of the apparel industry because a great percent of the product out of that plant goes into the apparel industry.

Mr. **Jenkins**. So out of your 65 acres of plant down there, less than an acre is involved in defense, I would assume?

Mr. **Gregg**. Yes, sir; far less.

Mr. **Jenkins**. If the other 64 acres goes, so goes defense; is that correct?

Mr. **Gregg**. Yes, sir.

Mr. **Jenkins**. I appreciate that, and I wanted to bring that point up.

I simply want to end by saying that I appreciate your testimony, and I'm particularly grateful for the questions that Mr. Campbell asked because it has always concerned me that we fight in the Congress to support increases in the minimum wage, to increase health benefits, to make sure that our quality of life for our employees is increased to the very highest. And at the same time, under the guise of free trade, we say: "But it's all right for our people to use products that are made under the worst conditions of the world; therefore our philosophy of free trade overrides our so-called conscience about quality of life. It's all right to use slave labor so long as we're not using it here."

Thank you very much for your testimony.

Chairman **Gibbons**. Mr. Chaikin, what's the employment—I'm asking you some figures because I'm checking on the testimony of Mr. Hufbauer. I realize you don't have these figures before you, so I'll restate them—his testimony shows employment in the apparel industry in 1960 at 1.1 million, roughly; and then in 1970, about 1.2 million, a little less than that but approximately 1.2 million. In 1980 he shows 1,264,000, and in 1984 he shows 1,215,000, a dropoff of about 50,000 between 1980 and 1984. Are these the same figures you're using, or——

Mr. **Chaikin**. No, they are not.

Chairman **Gibbons**. They're not?

Mr. **Chaikin**. Absolutely not.

Chairman **Gibbons**. Can you give me your figures for 1960, 1970, 1980, 1984 employment?

Mr. **Chaikin**. Well, I don't have them at my fingertips, Mr. Congressman——

Chairman **Gibbons**. I see my old friend Stanley there. Stan, have you got them? Come on up.

Mr. **Stanley**. We don't have, Mr. Chairman, the 1960 and the 1970 or whatever that figure was. We do have the more recent figure. Mr. Hufbauer's figure for 1984 is wrong, according to the Labor Department's statistics.

Chairman GIBBONS. He shows 1,215,000 in 1984.

Mr. STANLEY. In apparel, it was actually 1,201,000.

Chairman GIBBONS. It was 1,201,000 in 1984?

Mr. STANLEY. Right.

Textile mill products, 753,000.

Chairman GIBBONS. Well, that's about what he shows, yes. I'm just talking about apparel.

Mr. STANLEY. Oh, just apparel. What is the other year, sir?

Chairman GIBBONS. His figures are for 1960, 1970, 1980, 1984.

Mr. STANLEY. In 1980, the figure was—I think he has the right figure—1,264,000.

Chairman GIBBONS. Correct. He's got that.

Mr. STANLEY. I don't have the earlier figures here, sir.

Chairman GIBBONS. All right. Well, he made quite an interesting statement—he says, "Meanwhile, U.S. employment levels have been remarkably constant." We'll have to check that out. Those would be easy figures for us to get; I just don't have them at the tip of my fingers.

Mr. CHAIKIN. The U.S. Department of Labor figures show that for 1973, in apparel and related products, there was 1,478,000 workers employed. And that in 1984, 11 years later, there are 1,201,000.

Now, the thing that sets me off a little bit are what the related products might be. I'm not sure that I understand the BLS classifications, but I can tell you simply and clearly that there's been a tremendous fall-off in employment of apparel workers only. And we talk in terms of production workers. Production worker employment in the knit and woven apparel industry dropped from 1,243,000, which is the figure that I used for 1973, to 972,000 in 1984. And Mr. Hufbauer's figures may include, for example, designers and technicians and others who are employed, salesmen for apparel factories or apparel manufacturers, importers in the field of ladies' and children's apparel, and the people who work for them, the shipping clerks and warehousemen who warehouse the tremendous amount of apparel that's coming across our borders into the United States. But so far as production worker employment is concerned, the people who work in the apparel factories are concerned, the fall-off in employment in 11 years has been horrendous.

Chairman GIBBONS. I'm going to ask our staff to help straighten me out on these employment figures. We ought to all operate off the same set of figures, if we can.

I appreciate your helping us interpret them.

Mr. MARIANI. Mr. Chairman.

Chairman GIBBONS. Yes, sir?

Mr. MARIANI. The apparel industry does show a loss of 274,000 since 1973, the start of the MFA.

Chairman GIBBONS. Yes, I know. I don't know what made 1973 so high. He just took 1960, 1970, 1980, and 1984, and I realize that there are some swings up and down as the economy goes up and down. It's pretty hard to straighten it out. We'll try to get some better figures.

Mr. CHAIKIN. Well, one of the factors involved, Congressman Gibbons, is that this has been a great and growing country, as you well know.

Chairman GIBBONS. Yes, yes.

Mr. **Chaikin**. We had many more people, you know, in 1967 than we had in 1973. We had many more people than we had in 1973. You would have expected that apparel factory worker employment in apparel would be on the increase.

Chairman **Gibbons**. Yes, that's what I would expect. You're correct. In fact, as I recall, the 1984 figure for America was 239 million people, and that's up almost 100 million people since 1960.

Mr. **Schulze**. Mr. Chairman.

Chairman **Gibbons**. Yes?

Mr. **Schulze**. Will you yield at that point?

Chairman **Gibbons**. Sure.

Mr. **Schulze**. We hear a lot of talk about us becoming a service-oriented nation. Isn't the textile industry a very large user of high-tech, of computers and all the glamorous things that we're supposed to be going into? If we lose the markets, it's not going to do us any good to produce all these glamorous goods if nobody's using them. I think that the textile industry, if I understand correctly, is a high user of services.

Mr. **Gregg**. We certainly are. The chemical industry and the man-made fiber industry and the textile weaving and knitting industry are very large user of microelectronics.

Chairman **Gibbons**. I have some questions here from Mr. Pease, and I'll throw them out and let's see if you all can answer them. These are Mr. Pease's questions.

Can you give me the figures for the increase in the value of textile imports under TSUS item 807 at an annual rate in contrast to the figures for the increase in the value of all textile imports for 1980 through 1984? Does anyone have those figures?

Mr. **Gregg**. No, sir, we do not. We'd be happy to try to get those together for him and submit them for the record.

Chairman **Gibbons**. All right.

[The information follows:]

807 AND TOTAL MAN-MADE FIBER, COTTON AND WOOL PRODUCT IMPORTS

[Million square yards equivalent]

Year	807	Total imports
1980	311.6	4,884.4
1981	308.3	5,775.3
1982	309.6	5,935.0
1983	334.4	7,414.9
1984	416.7	9,783.7

Chairman **Gibbons**. Let me read Mr. Pease's second question.

Are all imports of textile products entering under 807 subject to the quantitative restraints under the multifiber arrangement?

Mr. **Gregg**. Yes.

Chairman **Gibbons**. They are.

What portion of imports of textile products are eligible for duty-free treatment under GSP?

Mr. **Gregg**. I think the answer is none.

Chairman **Gibbons**. None?

Mr. GREGG. Yes. They're exempt from the operation of a general preference.

Chairman GIBBONS. Yes, they are generally recognized as import sensitive products, and so I would expect that they would be exempt.

Here's his third question.

Production of most apparel items is labor-intensive. What is the value of the lost jobs and wages in the United States from products brought in by American companies under 807?

[No response.]

Does anyone have that figure? What is the value of lost jobs in the United States from products brought in by American companies under 807?

Mr. CHAIKIN. Well, I might be able to hazard a guess as to the proportionate loss of jobs which could be attributed to item 807 imports. I don't think that more than 10 percent of all of the imports of ladies' and children's apparel are 807 items. Now, when you talk in terms of what's the value of the items that come in under 807, that would be highly conjectural because we don't specifically know what items there are, what the content of the labor cost is, what the value of the fabrics may be that go into 807 items.

Chairman GIBBONS. I guess what he's driving at is that we're going to be looking at some 807 operations a little later on next week——

Mr. CHAIKIN. Yes, I know.

Chairman GIBBONS [continuing]. And he's trying to put some kind of quantitative figure on there. Anything that you all could help us with on that would be appreciated.

Mr. CHAIKIN. We'll try to put something together for you.

Chairman GIBBONS. All right, fine.

Well, I want to thank this panel for coming and for helping us with this problem. We'll probably be back with you again, sooner or later. Mr. Gregg, maybe someday we can come out there and see your operation.

Mr. GREGG. I'd like for you to do that. We'd love that.

Mr. MARIANI. Come out to Salt Lake City, sir.

Chairman GIBBONS. I've been to Salt Lake City. That's a great place. I wish I was going to get there this next week, but I can't do it.

Mr. MARIANI. Let me just say that it has been heartening to be here, and that you are listening and you are hearing, and hopefully action will be taken. That makes us feel good.

Chairman GIBBONS. We've got a lot of learning to do. Hopefully we'll get it done.

Thank you, sir. Thank you.

At this point in the record I have a short one-and-a-half-page letter from Levi Strauss that I'd like to insert in the record, unless there's an objection.

Without objection, I'll insert it at this point. We probably will have Levi Strauss as a witness a little later on.

[The letter follows:]

LEVI STRAUSS & CO.,
San Francisco, CA, April 1, 1985.

Hon. SAM M. GIBBONS,
Chairman, Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, Washington, DC.

DEAR MR. GIBBONS: This letter is submitted in response to your request that Levi Strauss & Co. appear and testify on April 3, 1985, at the hearing on the pending trade legislation and related issues. We sincerely regret that scheduling problems will prevent our acceptance of your invitation to testify at this time; however, we will consider appearing at a later date if you so request.

As you may be aware, Levi Strauss & Co. has long held a position in favor of a system of free international trade which provides maximum flexibility to American apparel producers, while balancing the competing demands of affected workers, industries and consumers. This is so, even though the vast majority of our production of apparel products—particularly denim jeans—past, present and for the foreseeable future is domestic; and we continue to be the largest employer of apparel workers in the United States.

We believe that an international market without severe restrictions on apparel importing, in the long term, will work to the benefit of our industry and American consumers. For the short term, we believe that extension of the MFA in a format similar to the one under which it now operates will provide sufficient control to insure the stability of apparel markets as we move toward a more realistic system of world trade. In this interim period, we recommend that government and industry explore ways of insuring that those apparel workers, who may be displaced either by automation of domestic plants or by imports as production and marketing of our products is readjusted consistent with changes in the world economy, are offered retraining and other forms of assistance which will provide them with substantial employment opportunities.

We do not believe that the recently introduced Textile and Apparel Trade Enforcement Act of 1985 would be an effective method of dealing with the perceived problems brought about by the changes which have been taking place in the American textile and apparel industries.

In particular, we are concerned about provisions in the bill which would establish an import licensing program, rollback current import levels from major exporting countries and place unrealistic limits on future import growth rates. We believe such provisions will place unreasonable burdens on companies of all sizes, which market apparel in the United States; will drive up retail prices; and will discourage apparel producers from adopting the sort of balanced sourcing approach, involving both domestic and foreign produced goods, which is in the best economic interest of the American apparel and retailing industries and American consumers.

We look forward to presenting our views to you in greater detail.

Very truly yours,

PETER M. PHILLIPES,
Associate General Counsel.

Chairman GIBBONS. Our next panel is from the Retail Industry Trade Action Coalition, Mr. William Andres, who is chairman, and Mr. Lee Abraham, who is chairman and chief executive officer of Associated Merchandising Corp.; from the American Association of Exporters and Importers, Textile and Apparel Group, Mr. Sim Gluckson, who is the chairman of the group, accompanied by his counsel, Mr. Mike Daniels; and Mr. Steven Weiser of Siegell, Mandell & Davidson; and the consumers for world trade, represented by Doreen Brown, its president. If all of those people would come forward.

While you are getting set there, let me commend you for the tremendous endurance you have exhibited today, waiting here all this time.

Our first witness will be Mr. Andres, and you may proceed, Mr. Andres.

STATEMENT OF WILLIAM A. ANDRES, CHAIRMAN, EXECUTIVE COMMITTEE, DAYTON HUDSON CORP.; AND CHAIRMAN, RETAIL INDUSTRY TRADE ACTION COALITION

Mr. ANDRES. Thank you, Mr. Chairman.

Chairman GIBBONS. Mr. Andres, you've got to get real close to these microphones.

Mr. ANDRES. All right.

Mr. Chairman, members of the committee, my name is William A. Andres. I am chairman of the executive committee of the Dayton Hudson Corp. in Minneapolis, MN, and I appear today as chairman of the Retail Industry Trade Action Coalition, called RITAC, a group of 38 large and small retail companies and 7 retail associations that have joined together to work for a more open system of international trade.

You have been provided a copy of my prepared statement, and I ask that it be entered into the record.

I would like to begin my remarks by making clear to this committee, indeed, to the entire Congress, that American retailers need and want a healthy textile and apparel industry in this country. We are their best customers, and we want to keep it that way.

Our job as retailers is to be the consumer's purchasing agent, and our success depends on finding merchandise that appeals to American consumers at a price that they can afford to pay. We have no preference for imports over domestically produced goods; in fact, when we shop the world's markets, 70 to 80 percent of the time we find what we're looking for right here in the United States.

Our preference is for access to all markets, because the other 20 to 30 percent of our needs overseas manufacturers are able to fill; sometimes that need is price, sometimes it's quality, sometimes it's innovation. Whatever the need, merchandise purchased abroad adds variety, value, and choice for the American consumer.

We are taking a stand in favor of more open international trade because the merchandise we buy overseas stretches the budgets of America's low and middle income families and helps us to control inflation. Think of it this way. Every day, when we open the doors of our stores, we hold an election. Our customers come in and vote; by their purchases, they let us know what they like and what they don't like. These votes make it clear that American consumers like the variety and value that a mix of imported and domestically produced merchandise provides because it gives them the opportunity to select the best value from competing alternatives.

Unfortunately, our ability to provide that mix at competitive prices has been increasingly and severely restricted by a combination of import controls, quotas, high tariffs, and administrative directives which now regulate trade in textiles and apparel to a degree unmatched by any other commodity or manufactured product. As a result, American consumers are paying a hidden price for imported goods that runs into the billions of dollars each year. Not only are consumers paying billions of dollars more than necessary for imported goods, their choices of goods have been narrowed because of new restrictions. Some lower priced items have been eliminated altogether because foreign manufacturers have "traded up" to more expensive goods to get more from their quota allocation, just as they did with Japanese cars.

Price competition is not a new phenomenon in retailing, nor should it be seen as a new phenomenon in textiles and apparel. Just as some textile plants have closed, so have Grants, Korvette's, Robert Hall, Lansburgh's, right here in Washington, and thousands of other local retailers. To succeed retailers, have changed with the times. We have discounted, we have promoted, we have increased our productivity, and we have made better use of our selling space and more effective use of our personnel.

And that is, in essence, what it takes to compete in an environment that has become more and more price conscious in each passing year.

Now, I am well aware that we are accused of fighting import restrictions in order to protect higher margins we supposedly get on imports. In response, I would have to point out that retailing is one of the most competitive industries in the world. When a retailer's margins get out of line, someone down the street will come along and cut the price. Indeed, if there were any correlation between imports and profit margins, 1984 should have been a banner year for retail profits because imports were up dramatically. That certainly was not the case. The fact is, retailing is about as profitable as textile manufacturing, and considerably less profitable than apparel manufacturing. In 1983, a composite of America's leading retailers had a return on sales of 3.35 percent, compared to 3.33 percent for the leading textile manufacturers and 5 percent for apparel manufacturers.

I would point out that every industrial sector, from steel to automobiles to computers, buys components from offshore resources for reasons of price, quality, and availability. The textile and apparel industries are no exception; indeed, the tremendous gains in productivity that they've made in recent years are due, in part, to imported machinery. To be accurate, the "Made in U.S.A." label really ought to read, "Made in the U.S.A. with Czechoslovakian knitting machinery, Swiss looms, and Japanese water jet looms."

Now, don't get me wrong. I'm not criticizing the textile industry for buying overseas; far from it, we know first hand that it helps keep them competitive and the American economy and the American consumer are the ultimate beneficiaries.

Now, let me address specifically the Textile and Apparel Trade Enforcement Act of 1985, H.R. 1562. To begin with, I know of no industry in the United States today that is protected by more trade barriers than our domestic textile and apparel manufacturers. And apparently, the domestic manufacturers think this is not enough. They now seek a rollback in current import quotas which is unnecessary and undeserved. Import growth has moderated; indeed, import growth declined through the second half of 1984. In January 1985, this year, import levels were actually below January 1984 levels by about 8 percent, and February is now down about 5 percent from 1 year ago.

We believe it is clear that imports are not rising unabated. Further, the strength of the dollar has been a significant factor responsible for import growth. When the dollar returns to more reasonable levels, I am confident we will see the textile industry, in particular, return to its former status as a net exporter of its product.

There are some very important reasons why domestic textile and apparel manufacturers should not be given further protection. First, their industries continue to be profitable and viable. Imports account for only about one-fifth of the total U.S. consumption, and major segments of the domestic textile market are relatively free of import competition. For example, American-made textile products for home furnishings and industrial uses enjoy 97 percent of the market. These two sectors account for about three-fifths of total domestic fiber consumption and a large portion of domestic textile industry employment.

Now, that brings me to the issue of jobs. Let me assure you that retailers are very concerned about the loss of jobs for any reason. American workers are our neighbors, our friends, our families, and, most of all, our customers. And when they suffer, we suffer; when they prosper, we prosper. But we simply must realize that improved productivity, not imports, has been a major cause of the job losses in domestic textile and apparel plants. These industries point with justifiable pride to the substantial gains achieved in worker productivity in the last decade. These gains seem to be forgotten, however, when the discussion turns to import competition and the need for import restriction. So we now have a situation where domestic manufacturers—or, more precisely, their trade associations—are trying to place all of the blame for job losses on competition from imports when, in fact, it has been their improving productivity that has reduced employment.

Using job losses as a rationale, they now ask for a form of protection most American businesses would find shocking—a guaranteed market share. I know of no concept more at odds with the free enterprise system than to legislate market shares, yet that is precisely what you are being asked to do. Certainly no one in retailing today enjoys a guaranteed market share, and I am unaware of any other business in America that works under such a system.

As members of this subcommittee analyze this legislation and the renewal of the MFA next year, I would hope that you would keep some fundamental policy questions in mind.

First, do you wish to sanction arbitrary and unilateral trade restraints designed to stifle growth and competition? They are contrary to the negotiated multilateral approach that has been the hallmark of U.S. trade policy.

Second, do you wish to invite retaliation against those sectors of our economy so dependent on exports simply to provide further protection to the most protected of our industries?

Given the strength of the dollar, many of our most important sectors, but especially agriculture, already face a bleak export market. Do you want to crush whatever hope they have left of expanding their export markets?

Finally, do you wish to threaten a new round of trade negotiations just as there appears to be an emerging consensus that such negotiations should be undertaken?

To conclude, Mr. Chairman and members of the subcommittee, American retailers stand ready to help ensure the existence of a strong, viable domestic textile and apparel industry. As I said earlier, domestic mills and plants are our best and largest suppliers, and their workers are some of our best customers. But additional import restrictions are not the answer. The answer is continued modernization and continuing to find markets that exploit the American textile industry's inherent competitive advantages. And while they may be disadvantaged by higher labor costs, they have many comparative advantages—reliability, proximity to markets, shorter leadtimes, creativity, and, most of all, a natural understanding of the fashion-conscious American consumer.

Additional protection will not help the textile and apparel industries become more viable; indeed, protection insulates management from making the kind of tough decisions that have to be made in order to be more competitive. Competition, not protection, is the best insurance for a healthy future for the domestic textile and apparel industries and for their workers. We firmly believe that these industries can help themselves best by considering serious, workable programs to adjust to the realities of an international economy. They can evidence their concern for their workers by helping them to be retrained and reassigned where necessary. Unfortunately, they seem to want more and more protection, building a wall that will inevitably crumble and hurt everyone around it.

There is simply no justification for further protection for this alreadyheavilyprotected industry, especially in face of the additional costs that it will impose on American consumers and the economy, and the harm it will inflict on the broader interests of U.S. international trade policy, and the retaliation it will surely invite against American agriculture and industry.

Mr. Chairman, when these industries seek a cooperative solution to the problems which bother us all, retailers will be the first to give assistance. We await a serious, considered effort.

[The prepared statement follows:]

STATEMENT OF WILLIAM A. ANDRES, CHAIRMAN OF THE EXECUTIVE COMMITTEE, DAYTON HUDSON CORP., ON BEHALF OF RETAIL INDUSTRY TRADE ACTION COALITION

My name is William A. Andres. I am Chairman of the Executive Committee of Dayton Hudson Corporation, and my address is 777 Nicollet Mall, Minneapolis, Minnesota 55402. I appear today as Chairman of the Retail Industry Trade Action Coalition, called RITAC, which is a group of 38 large and small retail companies and 7 retail associations that have joined together to work for a more open system of international trade.

I would like to begin my testimony by making clear to this Committee—indeed, to the entire Congress—that American retailers need and want healthy textile and apparel producing industries in this country. Helping to sustain productive and profitable textile and apparel industries is, we believe, in the very best interests of the nation as a whole, of our customers who are your constituents, and of our own retail companies. We are their best customers, and we intend to keep it that way.

Sam Walton of Wal-Mart may have said it best when he remarked, in a recent letter to American manufacturers and suppliers: "We know certain lines of merchandise will necessarily continue to be bought overseas, and rightly so. But our goal is to buy everything that is competitive in quality and price from our United States manufacturers." I couldn't agree more with Sam Walton, and I know the other members of RITAC share that view.

Our job as retailers is to be the customer's purchasing agent. Our success depends on finding merchandise that appeals to American consumers, at a price they can afford to pay. We have no preferences for imports over domestically-produced good. In fact, when we shop the world's markets, 70 to 80 percent of the time, we find what we're looking for right here in the United States.

Our preference is for access to all markets, because the other 20 to 30 percent of the time, overseas manufacturers are able to fill a need. Sometimes that need is price. Sometimes it's quality. Sometimes it's innovation. Whatever the need, merchandise purchased abroad adds variety, value, and choice for the American customer.

We are taking a stand in favor of more open international trade because the merchandise we buy overseas stretches the budgets of America's low- and middle-income families, and helps us control inflation. It is very popular with our customers. Think of it this way. Every day that we open the doors of our stores, we hold an election. Our customers come in and vote. By their purchases, they let us know what they like and what they don't like. Those votes make it very clear that American consumers like the variety and value that a mix of imported and domestically produced merchandise provides. And it is that mix we are here to protect.

Unfortunately, our ability to provide that mix at competitive prices has been increasingly qnd severely restricted by a combination of import controls, quotas, high tariffs, and administrative directives which now regulate trade in textiles and apparel to a degree unmatched by any other commodity or manufactured product.

As a result, American consumers are paying a "hidden pricetag" for imported goods that runs into the billions of dollars each year. Sometimes the cost quota on a garment is higher than the cost of the garment itself. That adds to our cost of doing business, and is inevitably reflected in higher prices.

Not only are customers paying billions of dollars more than necessary for imported goods, their choices of goods have been narrowed because of these new restrictions. Some lower-priced items have been eliminated altogether because foreign manufacturers have "traded up" to more expensive goods to get greater profit from their quota allocation. Just as the price of Japanese automobiles soared, even though the number of cars imported remained the same, a similar situation now exists in apparel. All because of an unnecessarily complex and arbitrary system of import restrictions.

Price competition is not a new phenomenon in retailing. Nor should it be seen as a new phenomenon in textiles and apparel. Just as some textile plants have gone out of business, so have Grants. Korvette's. Robert Hall. Lansburgh's, right here in Washington, and literally hundreds of other local retailers—all forced out of business because of incredible price competition which they could not withstand.

To succeed, retailers have had to change with the times. Take Dayton Hudson, as an example. In the early 1970s, some 80 percent of our sales came through regular, full line department stores. Discount stores were a small portion of our business. By the early 1980s, the proportion was absolutely reversed: 80 percent of Dayton Hudson's sales now come through discount stores, and through promotional department stores.

Like other retailers who have survived the transition, we have discounted. We have promoted. We have increased our productivity. We have made better use of our selling space, and more effective use of our personnel. That is, in essence, what it takes to compete in an environment that has become more promotional with each passing year.

I am well aware that we are accused of fighting import restrictions in order to protect higher margins we supposedly get on imports. In response, I would have to point out that retailing is one of the most competitive industries in the world.

If a retailer's margins get out of line, someone down the street will come along and cut the price. Indeed, if there were any correlation between imports and profit margins, 1984 should have been a banner year for retail profits, because imports were up dramatically. That certainly was not the case.

In fact, retailing is about as profitable as textile manufacturing, and considerably less profitable than apparel manufacturing. In 1983, America's leading retailers had a return on sales of 3.35 percent, compared to 3.33 percent for textile manufacturers and 5 percent for apparel manufacturers. Thus it is difficult to make the case that one industry needs protection at the expense of the other, or at the expense of all the industries who suffer because of the inevitable retaliation against our exports because of these restrictions.

Purchasing imported merchandise does enhance the overall competitiveness of the retail industry. In this increasingly promotional environment, it is an important way to deliver what the customers have come to expect: value for their money. But I would point out that every industrial sector—from steel, to automobiles, to computers—obtains components from offshore sources for reasons of price, quality, and availability.

This is what keeps American industries competitive in world markets. The textile and apparel industries are no exception. The tremendous gains in productivity they've made in recent years are due, in part, to imported machinery. To be accurate, the "Made in U.S.A." label really ought to read: "Made in U.S.A. with Czechoslovakian knitting machinery, Swiss looms, and Japanese water-jet looms."

Don't get me wrong. I am not criticizing these industries for buying overseas. Far from it. I know first hand that it helps keep them competitive, and the American economy—and the American consumer—are the ultimate beneficiaries. I merely wish to emphasize that this entire issue must be viewed in its proper context.

Let me say a word about import restrictions, and then a word about jobs—which is, as we all know, the reason for having import restrictions.

I would like to address, specifically, the Textile and Apparel Trade Enforcement Act of 1985, H.R. 1562.

To begin with, I know of no industries in the United States today that are protected by more trade barriers than our domestic textile and apparel manufacturers. Before discussing additional restrictions, it would be useful to recall what they already have: (1) Higher import tariffs than those of any other industrial sector. (2) Exceptions from various trade liberalizing measures, including the General Agreement on Tariffs and Trade (GATT), the Generalized System of Preferences, and the Caribbean Basin Initiative. And (3), most importantly, a quota system, pursuant to the MFA, which already regulates the vast majority of our trade in textiles and apparel.

Looking at our top four textile and apparel supplier countries, as Ambassador Imus testified last month, we see that all but a fraction of our MFA trade is already under quota: 75 percent of our trade with Taiwan is under quota; 95 percent of our trade with Hong Kong; 92 percent of our trade with Korea; and 75 percent of our trade with China. Moreover, under the Reagan Administration alone, more than 300 *new* quota limits have been added.

According to domestic manufacturers, this is not enough protection. They now seek a rollback in current import quotas which is unnecessary and undeserved. They base their argument, in large part, on economic trends and import volume of last year when already this year, the picture has changed dramatically. The snapshot they offer is out of focus. A newer, truer, clearer picture has emerged, and the facts are quite different than some would have you believe.

For example, import growth has moderated. Textile and apparel imports reached record levels in mid-1984, drawn into the market by a strengthening domestic economy, overly-optimistic projections of additional demand in key market segments (particularly apparel), and a steadily rising dollar.

The impact of imports upon domestic production and employment has been vastly overstated by some observers, however, and the effects are less long-lasting than would appear at first glance. Indeed, import growth declined throughout the second half of 1984, and January 1985 import levels were actually below January 1984 levels by about 8 percent.

Changes in import levels can be quite deceptive. Imports simply don't respond to sudden market changes over the short run. Buying overseas requires long lead times, such longer than is true domestically. Import purchases, once they're made, can't be revoked, so the import pipeline can jam up. That is what occurred in 1984, and we believe it was a temporary phenomenon. We believe it is clear that imports are not rising unabated. They do, in fact, react in the same manner as domestic production when you take into consideration the time-lag involved.

Further, the strength of the dollar has been a significant factor responsible for import growth. Textiles and apparel are not alone in being adversely affected by the strong dollar. There is a broad pattern of import growth across the entire manufacturing spectrum. When the dollar returns to more reasonable levels, I am confident we will see the textile industry, in particular, return to its former status as a net exporter.

There are, however, some very important reasons why domestic textile and apparel manufacturers should not be given further protection.

First, their industries continue to be strong and viable. While imports have increased over the past decade, they still account for only about one-fifth of total U.S. consumption. Overall consumption has risen from 10.8 billion pounds in 1974, to an estimated 13 billion pounds in 1984. Not only have the domestic textile and apparel mills maintained their position, they have enjoyed growth.

In the apparel sector, where imports do compete in a meaningful way, domestic production of many segments has remained steady or even gained over the past decade. U.S. production of shirts and blouses, for example, rose from 96.5 million dozen in 1974 to 124.3 million dozen in 1983 (the last year for which we have data). So, U.S. apparel manufacturers remain viable, accounting for about three-quarters of the finished apparel sold in the United States last year.

Moreover, major segments of the domestic textile market are relatively free of import competition. Textile products for home furnishings and for industrial uses, for example, have only about a 3 percent import penetration. And those two sectors account for about three-fifths of total domestic textile fiber consumption, and a large portion of domestic textile industry employment.

That brings me to the issue of jobs. Let me assure you that retailers are very concerned about the loss of jobs for any reason. American workers are our neighbors, our friends, our families—and, most of all, our customers[1] When they suffer, we suffer; when they prosper, we prosper.

But we simply must realize that substantial improvements in productivity—and not imports—have been a major cause of lower employment in domestic textile and apparel plants. These industries point with justifiable pride to the substantial gains achieved in worker productivity in the last decade. (They have increased their productivity at a rate significantly faster than the national average.) These gains seem to be forgotten, however, when the discussion turns to import competition and the need for import restrictions.

Let me give you just one example that demonstrates the extent to which job losses can be attributed, in large part, to productivity gains. Comparing 1984 to 1974, the domestic textile weaving sector produced almost a billion more square yards of broadwoven grey fabric with 80,000 fewer workers. (A reduction of roughly one-fourth of the labor force employed a decade earlier.)

We now have a situation where domestic manufacturers—or, more precisely, their trade associations—attempt to place all of the blame for job losses on competition from imports. Notwithstanding the extensive protection already in place, you are being asked to grant even more protection.

Not only are you asked to roll back quotas, there is an even greater—more shocking—change in store not only for retailers, but for all Americans businesses if we are to take seriously the contents of H.R. 1562: The statutory imposition of a market share system in the United States.

I know of no concept more at variance with the free enterprise system as we know it and practice it, than to legislate market shares. That is precisely what you are being asked to do. Certainly no one in retailing today enjoys a guaranteed market share, and I am unaware of any other business in America that works under such a system. In non-market economies, in other countries—yes; but not in the United States.

If you take this idea seriously—(and since it is proposed to be law, we must take it seriously)—then you will also realize that legislated market shares cannot be limited to the manufacture of textiles and apparel. What would very likely follow would be cartelized trade in shoes, steel, automobiles, and other basic consumer and industrial goods.

We believe the domestic manufacturers of textiles and apparel—(or, again, more accurately, their trade associations)—want to demonstrate their political muscle with the idea of gaining an extension of the Multifiber Arrangement in 1986 in a form which, they hope, will be further beneficial to their concept of "managed" international trade.

As the Members of this Subcommittee analyze this legislation and renewal of the MFA next year, I would hope that you would keep some fundamental policy questions in mind.

First, do you wish to sanction the imposition of arbitary and unilateral trade restraints designed to stifle growth and competition? This kind of arbitrary and unilateral action is contrary to the negotiated, multilateral approach that has been a hallmark of U.S. trade policy.

Second, do you wish to invite retaliation against those sectors of our economy so dependent on exports—simply to provide further protection to the most protected of our industries? Given the strength of the dollar, many of our most important sectors—but especially agriculture—already face a bleak export market. You are being asked to crush whatever hope they have left of expanding export markets.

Finally, do you wish to threaten a new round of trade negotiations just as there appears to be emerging consensus that such negotiations should be undertaken? As many of you are aware, prior to—or during—the last four major international trade negotiating rounds, the domestic textile and apparel industries have influenced the Administration's negotiating positions, to the detriment of all other sectors of the U.S. economy. I would hope that we would not forsake the opportunity of opening up new export markets solely for the sake of industries with an insatiable appetite for protection.

CONCLUSION

American retailers stand ready to help ensure the existence of strong, viable domestic textile and apparel industries. As I said earlier, domestic mills and plants are our best and largest suppliers, and their workers are some of our best customers.

But additional import restrictions are not the answer! The answer is continued modernization, and finding markets that exploit the American textile industry's inherent competitive advantages. While they may be disadvantaged by higher labor costs, they have many comparative advantages: Reliability. Proximity. Shorter lead times. Creativity. And a natural understanding of the fashion-conscious American consumer.

Additional protection will not help them become more viable. Indeed, history teaches us that businesses that are sheltered from competition are the least responsive to change. Protection insulates management from making the kind of tough decisions that have to be made in order to be more competitive.

As retailers have learned the hard way, when you are faced with competition, the best thing to do is meet it *head-on*. While that's sometimes painful, experiences proves it is the best response.

Competitive, not protection, is the best insurance for a healthy future—for the domestic textile and apparel industries, and for their workers.

We firmly believe these industries can help themselves best by considering serious, workable programs to adjust to the realities of an international economy. They can evidence their concern for their workers by helping them be retrained and reassigned where necessary.

I regret that I do not see anywhere in the proposed legislation any indication that the domestic manufacturers want true assistance. Unfortunately, they seem to want only more and more protection, building a wall that will inevitable crumble and hurt everyone around it.

There is simply no justification for further protection for these already heavily-protected industries, especially in the face of the additional costs it will impose on American retailers, consumers, and exporters; and the harm it will inflict on the broader interests of U.S. international trade policy.

Mr. Chairman, when these industries truly seek a cooperative solution to problems which bother us all, retailers will be the first to give assitance. We await a serious, considered effort.

Thank you.

Mr. ANDRES. Mr. Chairman, we have a more complete analysis of the import control program, which I would like to submit for the record.

[The document follows:]

INTERNATIONAL TRADE IN TEXTILES AND APPAREL: A BACKGROUND MEMORANDUM

EXECUTIVE SUMMARY

International trade in textiles and apparel has been subject to more regulations, special arrangements, and volume restraints than trade in any other industrial sector. The origins of the existing U.S. regulatory framework can be traced to the 1930's. Since 1974, international textile and apparel trade has been governed by the Multifiber Arrangement (MFA), an international agreement which—although designed as a temporary arrangement—has been extended on two prior occasions and is currently due to expire on July 31, 1986. Today, the United States has quotas covering textile and apparel products from 31 countries.

Notwithstanding the existence of the MFA and the U.S. regulatory framework, a textile quota/licensing bill—the Textile and Apparel Trade Enforcement Act of 1985—has been introduced in the Congress. Just as nearly every piece of major trade legislation in the past ten years has exempted textiles and apparel from any trade liberalizing measures and has added another layer of protection in the process, this legislation seeks to further insulate the textile and apparel industries from foreign competition.

Characterized as merely a trade enforcement measure, this legislation will hurt retailers, their millions of employees, and their customers throughout the United States, violate U.S. international commitments, invite retaliation by our trading partners, and jeopardize broader U.S. trade objectives. In view of the special treatment accorded textiles and apparel for decades, there is no justification for expanding this specialized treatment.

The Retail Industry Trade Action Coalition (RITAC) not only opposes this legislation, but also believes it is important at this time to review the history of past efforts to curtail imports of textiles and apparel, to examine the costs imposed by such restrictions, and to consider alternative means of achieving the original goals underlying U.S. efforts to temporarily regulate textile and apparel trade. This paper is designed to provide an overview of the current system of regulating international textile and apparel trade as the Congress and the Administration prepare for the renegotiation of the MFA and, in the process, further evaluate U.S. policy toward international textile and apparel trade.

INTRODUCTION

International trade in textiles and apparel has been subject to more regulations, special arrangements, and volume restraints than trade in any other industrial sector. The origins of the existing U.S. regulatory framework can be traced to the 1930s. Since 1974, international textile and apparel trade has been governed by the Multifiber Arrangement (MFA), an international agreement which—although designed as a temporary measure—has been extended on two prior occasions and is currently due to expire on July 31, 1986. Today, the United States has quotas covering textile and apparel products from 31 countries. In the near future, the Congress and the Administration must prepare for the renegotiation of the MFA and, in the process, further evaluate U.S. policy twoard international textile and apparel trade.

Notwithstanding the existence of the MFA and the U.S. regulatory framework, a textile quota/licensing bill—the Textile and Apparel Trade Enforcement Act of 1985—has been introduced in the Congress. The relief sought by such a proposal—the imposition of more import restraints—would add to the extensive protection already enjoyed by the domestic textile and apparel industries. Just as nearly every piece of major trade legislation in the past ten years has exempted textiles and apparel from any trade liberalizing measures and has added another layer of protection in the process, this legislation seeks to further insulate the textile and apparel industries from foreign competition. No other industry in the United States has received such treatment.

For U.S. retailers, the debate preceding renegotiation of the MFA (including consideration of the textile quota/licensing bill) will be crucial because the ability to source merchandise in the world market and to meet consumer quality and price demands are central to the industry's health. The Retail Industry Trade Action Coalition (RITAC)—a group of large and small retail establishments located throughout the United States—believes it is important at this time to review the history of past efforts to curtail international trade in textiles and apparel, to examine the costs imposed by such restrictions, and to consider alternative means of achieving the original goals underlying U.S. efforts to temporarily regulate textile and apparel trade.

This paper provides an overview of the current system of regulating international textile and apparel trade. Part I describes the origins of the current regulatory import program and other measures that distort trade in textiles and apparel. Part II explains how the current program is administered within the Executive Branch, while Part III identifies numerous other trade-restricting mechanisms which are currently in place. Part IV discusses the ramifications of the textile quota-licensing legislation and explains why this legislations is unnecessary and would be unwise as a matter of trade policy. In support of these assertions, Part V analyzes current economic trends in the domestic textile and apparel industries in the context of their historical performance, and makes certain forecasts for the future.

I. THE DOMESTIC TEXTILE AND APPAREL INDUSTRIES: A HISTORY OF PROTECTION

Through multilateral and bilateral agreements, unilateral government actions, high tariffs, and exemptions from trade liberalizing measures, the domestic textile and apparel industries have successfully obtained protection from foreign competition for decades. As a result, retailers have had significantly less flexibility in sourcing merchandise from the widest possible market to meet customer demands for quality and price that simply cannot be obtained from domestic suppliers.

Historical development of the MFA

Notwithstanding their espoused commitment to free trade principles, successive Administrations have agreed to restrictions on international trade in textiles and apparel. Those principles were memorialized in 1947, when the United States and other major trading nations entered into the General Agreement on Tariffs and Trade (GATT), a multilateral agreement designed to liberalize and govern world trade. Since then, international trading under the GATT has been governed by two basic principles: First, the imposition of tariffs and bestowal of trade concessions must be made on a "most-favored-nation" basis, that is, nations must treat all of their trading partners in the same nondiscriminatory manner and should eschew bilateral agreements. Second, contracting nations may impose only temporary quotas to limit trade, and only in cases in which increased imports of a particular item are causing or threaten to cause serious injury to a contracting nation's domestic industry. Unfortunately, the regulation of world trade in textiles and apparel—though accomplished under GATT auspices—is inconsistent with these guiding principles.

As further explained below, the initial departure from GATT trade principles was prompted by a belief that trade in textiles and apparel was a special case and thus deserved preferential treatment. There no longer exists any feature unique to world textile and apparel trade which warrants continuation of discriminatory treatment. In fact, it may now be said that the textile and apparel industries are not unique in their structure or in their foreign competition—only in the unprecedented protection they continue to enjoy.

The origins of the existing U.S. regulatory framework limiting trade in textiles and apparel can be traced to the 1930s, when Japan, in response to protectionist sentiments in the United States, began to limit its exports to the United States. In the mid-1950s, calls for new policies to deal with foreign competition increased. In 1956, Japan, once again under pressure, agreed to "voluntarily" restrain exports to the United States. In that same year, Congress gave the President the authority to negotiate limits with exporting countries, as well as to take unilateral action, in order to limit textile and apparel imports.

Early in 1961, following pledges made during the 1960 presidential campaign, the United States proposed that a conference between exporters and importers of cotton textiles and products be convened to find a way to encourage trade without causing undue disruption to the established industries of the importing countries. As a result of this initiative, premised on the assumption that these industries should be accorded special treatment, two forerunners to the MFA were negotiated: the Short-Term Arrangement Regarding International Trade in Cotton Textiles (STA) in 1961 and the Long-Term Arrangement Regarding International Trade in Cotton Textiles (LTA) in 1962. These two arrangements established the right of importing countries to negotiate restrictions on low-cost cotton textile imports. Under the LTA, the United States negotiated bilateral cotton textile and apparel restraint agreements with 31 leading export countries and unilaterally imposed limits on imports from countries with which it had not negotiated such comprehensive agreements.

In 1968, presidential candidate Richard Nixon made a campaign promise to "promptly take the steps necessary to extend the concept of international agreements to all other textile articles involving wool, man-made fibers, and blends." By October, 1971, the United States had concluded bilateral agreements covering trade in wool and man-made fiber textile and apparel products with the four largest exporters—Japan, Hong Kong, Taiwan, and South Korea—and also Malaysia, a small supplier. The U.S. Government then sought international acceptance for these new arrangements. In July, 1972 the GATT Working Party on Textiles called for a new international arrangement covering cotton, man-made fibers, and wool textile and apparel products. This led to the negotiation of the Multifiber Arrangement (MFA), which went into effect on Janaury 1, 1974.

MFA I.—The original purpose of the MFA was to give developing countries guaranteed and growing access to markets in Western Europe and North America but to arrange the growth so as not to disrupt the established textile industries in those markets. Exporting countries were assured of at least a 6 percent annual growth rate. However, exceptions to the 6 percent limit provided a means of restricting particular categories in extraordinary cases, e.g., wool.

The special treatment of textiles and apparel first introduced in the STA and LTA—in particular the concept of "market disruption"—was further emphasized in MFA I. The effects of this concept were far-reaching because it introduced fundamental changes to generally governing trade principles. Imports from a particular country could be singled out as the source of market disruption, which, in effect, provided a basis for applying additional restrictions in a discriminatory manner. Moreover, price differentials between particular imports and goods of comparable quality sold domestically could be invoked as a cause of market disruption. Having been given the right to invoke the market disruption mechanism, importing countries in return were obligated to pursue appropriate policies to encourage structural adjustment.

MFA II.—After more than a year of difficult negotiations, the MFA was extended in late December 1977 with certain "understandings" incluided in the protocol of extension. The protocol of MFA II contained a "reasonable departures" provision, allowing for "jointly agreed reasonable departures from particular elements [of the Arrangement] in particular cases." In essence, the provision allowed the European Community to discriminate between suppliers to materially tighten the form of bilateral agreements and to renegotiate downward the basic 6 percent quota level through separate bilateral agreements. The United States did not formally invoke this provision, but interpreted other provisions to hold growth below 6 percent for some overseas suppliers. MFA II resulted in a significant tightening of restrictions on imports from developing countries.

Notwithstanding the additional restrictions included in MFA II, successful efforts were undertaken to further restrict imports into the United States. In 1978, when the Carter Administration was prepared to make tariff concessions on textiles and apparel as part of the Tokyo Round of Multilateral Trade Negotiations, Congress was persuaded to enact legislation that not only would have blocked implementation of these proposed concessions, but threatened the status of the negotiations as they were moving toward a successful conclusion. President Carter vetoed the legislation, but agreed to provide relief in the form of an Administration "White Paper" that pledged a more restrictive policy on imports. The White Paper promised, among other things, to aggressively control import surges and to tighten controls under bilateral agreements to eliminate threats of market disruption. Moreover, the MTN implementing legislation included a "snapback" clause, which provided for the restoration of pre-Tokyo Round textile and apparel tariffs in the event the MFA was not renewed.

MFA III.—Nine days before MFA II was to expire, negotiators reached agreement on the protocol further extending the arrangement to July 31, 1986. The basic agreement remained unchanged, but the new protocol eliminated the "reasonable departures" provision, while acknowledging "the goodwill" expressed by large exporters in bilaterally solving problems related to "particularly large restraint levels." The new protocol provided for, among other things, latitude in negotiating bilateral textile agreements to set lower growth rates for the largest suppliers.

Notwithstanding the substantial regulatory mechanisms that had continued to be erected under the MFA, the Reagan Administration was encouraged to further tighten restrictions on import growth. On December 16, 1983, the Reagan Administration expanded the "call" mechanism to take effect if there existed a presumption—rather than proof—of market disruption. (A "call" is a governmental action to restrict imports on a category not already under quota restraints.) Under these new provisions, calls can be made when total growth in imports in a specific category is greater than 30 percent in the most recent year or the import/domestic production ratio is 20 percent or greater in a specific category, as well as when imports from a supplier equal 1 percent or more of the total U.S. production in that category. As originally introduced in the 1960s, the market disruption mechanism represented a significant departure from governing trade principles. By establishing these arbitrary percentage guidelines, the Reagan Administration further expanded the scope of protection available to the textile and apparel industries, a form of protection unavailable to any other domestic industry.

On Christmas Eve, 1984, the Administration announced new limits on the introduction into commerce of previously embargoed textiles and apparel. Under these new guidelines, embargoed items may, at the U.S. Government's discretion, be permitted entry or withdrawal from warehouse for consumption at a maximum rate of 20 percent of the new annual limit for the first five months of the new restraint period.

In the most recent imposition of restrictions designed to impede trade in textiles and apparel, the Reagan Administration issued new country-of-origin regulations on March 5, 1985. The rules (originally published in "interim" form on August 3, 1984) changed longstanding regulations governing the standards for determining the country of origin of textile and apparel imports, and were purportedly designed to prevent evasion of existing quotas. In application, however, they will effectively hamper all trade in imported textiles and apparel and further protect the domestic industries from foreign competition.

As is apparent from the foregoing discussion, successive Administrations have agreed to further restrictions beyond those initially contemplated in MFA I, which was initially negotiated as a temporary set of ground rules governing trade in textile products. Although originally intended to help the less developed countries, the

MFA has been used to place the greatest relative burden on their exports. Under the MFA, the U.S. Government has imposed quotas on imports of textiles and apparel on a selective, bilateral basis. In addition, the U.S. Government has imposed and negotiated quotas on imports of cotton, wool, and man-made fiber textiles and apparel without proof that imports of these products have caused or threatened to cause serious injury or market disruption to the nation's domestic producers of textiles and apparel.

Successive Administrations have used the MFA to constrain trade in textiles and apparels to the significant detriment of retailers and their customers. Rather than help domestic producing industries to adjust to world.wide competition, however, the MFA and other trade restrictions have merely perpetuated protectionism and distorted investment and consumer spending in the United States.

II. THE MULTIFIBER ARRANGEMENT (MFA): U.S. IMPLEMENTATION

Under the MFA, the United States has negotiated bilateral restraint agreements with 27 MFA-signatories and 9 nonsignatories, covering the bulk of all U.S. textile and apparel imports. The agreements generally specify quotas and provide mechanisms for establishing import levels during the life of the agreement in the absence of quotas. The primary legal authority for U.S. participation in the MFA and the negotiation of these agreements is found in section 204 of the Agricultural Act of 1956, as amended, 7 U.S.C. § 1854.

Within the U.S. Government, the Committee for the Implementation of Textile Agreements (CITA)—composed of the Chief Textile Negotiator of the U.S. Trade Representative's office and members from Commerce, Labor, State, and Treasury—supervises the implementation of bilateral restraint agreements and proposes and implements import restraints. (The textile and apparel industries are the only sector that have their own institutionalized negotiator within USTR.) The Committee is chaired by the Deputy Assistant Secretary of Commerce for Textiles and Apparel. The Commerce Department provides all staff work for this Committee, monitors all agreements, and develops statistical data upon which restraints are imposed. Data is supplied by the industry, which is represented in the committee by the Management Labor Textile Advisory Committee. The quota program is administered by the Office of Textiles and Apparel (OTEXA) within the Commerce Department. The U.S. Customs Service is responsible for keeping track of import levels and for enforcing visa arrangements, limits, and embargoes.

Under the MFA, the Textiles Surveillance Body (TSB) supervises the Arrangement and examines the justification for actions taken by governments under it, but has no enforcement powers to ensure conformity with recommendations. The United States, the European Community, and Japan are permanent members of the TSB. The GATT Textiles Committee, composed of all parties to the MFA, annually reviews the operation of the Arrangement and handles specific matters referred to it by the TSB.

The following terms are useful in understanding how the MFA and the bilateral agreements operate and the manner in which the U.S. Government regulates textile and apparel trade:

Quota—Within the framework of the bilateral agreements, quotas are the primary mechanism used to restrict trade in important categories. In the United States, a quota is a restriction placed on the volume of imports that will be allowed to enter in a certain category from a particular country over a set period of time, usually one year. For most exporting nations, quotas are the allocation rights and the export licenses or documentation that an exporter must secure before exporting merchandise governed by an import limit in a bilateral agreement. This type of quota is distributed by the foreign government and often is freely traded (at a price) among foreign manufacturers.

Carryover.—The right to add to a quota in a given year any unused portion of a quota in the prior year, generally up to a maximum of 10 percent under the MFA.

Carryforward.—The right to add to a quota in a given year a borrowed portion of the quota set for the succeeding year, generally up to a maximum of 5 percent under the MFA.

Swing.—The right to apply portions of a quota in one category to another category in a given year, generally up to a maximum of 7 percent under the MFA.

The percentage parameters for carryover, carryforward, and swing set under the MFA have been superceded by the restrictions embodied in the Carter Administration White Paper and provisons included in many recently negotiated bilateral restraint agreements. As a result, there is much less flexibility than originally envisioned in the MFA.

Embargo.—When more goods are presented for entry into the United States than the quota level allows, the U.S. Customs Service denies entry of such merchandise. Embargoed merchandise must then be reexported or placed in a bonded warehouse until the quota for that period expires and a new one governs.

Calls for consultation.—Bilateral agreements include a special mechanism whereby the U.S. Government can control imports not subject to quotas when they are thought to cause "market disruption" (*see* discussion of market disruption concept at p. 6). The process of establishing quotas generally begins when the U.S. Government issues a "call for consultations" with the foreign government. The U.S. Government initiates calls in three ways: under Article 4 of the MFA bilaterally, under Article 3 of the MFA unilaterally, and under section 204 of the Agriculture Act of 1956 for non-MFA signatories. During the consultation period, a temporary restraint level is sometimes imposed. If, after a specified period of time—usually 60 or 90 days—agreement has not been reached on a new restraint level, the United States may impose a unilateral restraint on trade for a set period in the affected product category, usually from the date the call is made.

III. OTHER TRADE-RESTRICTING MECHANISMS

The MFA and its system of bilateral restraint agreements provide the domestic textile and apparel industries with an extensive program of import protection. But there is more. As the current regulatory framework of the MFA was put into place, and most recently within the last ten years, other mechanisms were used to place further restrictions on textile and apparel imports and to exempt such imports from various trade liberalization programs. Among these are the following:

Tariffs.—Throughout this period, among the highest tariffs in the U.S. tariff schedules have been kept in place on textiles and apparel to discourage imports and to increase the cost of imported merchandise. During the Tokyo Round, when U.S. tariffs on all industrial products were reduced substantially to an a average of 4.2 percent *ad valorem,* textile/apparel tariffs also were reduced, but to a much lesser extent, and thus remain four times higher than average tariff levels—17.5 percent ad valorem. In fact, the average tariffs on textiles and apparel are far higher than the average for any other sectors: e.g., 0.2 percent on paper and products, 2.6 percent on automotive equipment, and 4.1 percent on consumer electronic products.

GSP.—In an effort to foster economic growth in developing countries, Congress established the Generalized System of Preferences (GSP) in the Trade Act of 1974. Under GSP, which has since been extended, eligible articles from beneficiary countries are entitled to duty-free treatment. For many developing countries, textile and apparel exports are one of the chief sources of employment and foreign exchange earnings; however, the President is specifically precluded by law from designating as eligible articles textile and apparel articles which are subject to textile agreements. As a result, the domestic industry continues to receive tariff protection from the imports of developing countries.

CBI.—The Caribbean Basin Initiative, passed in 1983, was designed to address both emergency and long-range economic development in the Caribbean region. The offer of one-way free trade (i.e., duty-free treatment for exports to the United States) for designated countries is the centerpiece of the many trade, tax, and financial incentives contained in the CBI. Like the GSP program, however, the CBI specifically exempts textile and apparel products from duty-free treatment.

U.S.-Israeli free trade agreement.—Title IV of the 1984 Trade Act provided the Administration with the authority to negotiate a free trade arrangement with Israel. The speed with which U.S. tariffs on textiles were to be cut was one of the major stumbling blocks in the negotiation of a final agreement, and remains a matter of controversy. While tariffs on most products from Israel will be eliminated immediately, duties on most textile imports will have a phase-out period extending to 1995. Despite this exception, the textile lobby continues to oppose the agreement.

Textile labeling bill.—As part of the Drug Price and Patent Term Act of 1984, Congress included provisions requiring more conspicuous labeling of imported textile and apparel goods and mandating that retail catalogs show whether the advertised item was made in the United States or was imported. Under the law, American-produced articles will carry "Made in U.S.A." labels, in the latest effort to encourage consumers to discriminate in their textile and apparel purchases.

IV. THE TEXTILE QUOTA/LICENSING BILL IS UNNECESSARY AND WOULD HARM OVERALL U.S. TRADE

Since the early 1960s, there has been increasing interest in the "globalization" of textile and apparel trade. Under this concept, a cap would be placed on total imports from all countries (or a limit would be set on the volume of imports from each exporting country) for the current 116 categories of textiles and apparel. Each exporter signing the Multifiber Arrangement would receive a percentage of the total.

The current MFA and the existing 37 bilateral restraint agreements provide more than adequate restrictions on trade in textile and apparel imports. In 1985, the vast majority of all such trade was covered by these agreements. Coupled with the December 1983 guidelines and the recently issued country-of-origin regulations, these agreements place serious and onerous limits on trade.

The annual cost to consumers caused by the current regulatory program is staggering. A recent Federal Trade Commission study, for example, estimated that quotas on only nine categories of clothing imported from Hong Kong alone cost consumers an additional $384 million in 1983.

Nonetheless, the Textile and Apparel Trade Enforcement Act of 1985 has been introduced to accomplish globalization and to further decrease textile and apparel imports while increasing administrative burdens enormously. This legislation—H.R. 1562 and S. 680—contains four essential elements:

1. The legislation extends the coverage of restraints to all fibers, including ramie, silk, and linen, as well as cotton, wool, and man-made fibers (the only fibers covered by the MFA);

2. It directs the President to create an import licensing program, requiring a license for each entry of each imported textile or apparel products;

3. It designates as a "major exporting country" any country that accounted for 1.25 percent of textile and apparel imports into the United States in 1984 (except Canada and the present members of the European Community—which are exempted from any restrictions—and Mexico and Caribbean countries, which are exempted from the definition as a major exporting country). These countries will only be allowed one percent per year growth on a base significantly reduced from their 1984 trade levels; and

4. It designates as an "exporting country" any country not defined as a "major exporting country;" these countries generally would be permitted a higher level of growth than the majors in 1985 exports and beyond, except in the case of "import sensitive" categories or until they graduate to "major exporter" status. [1] However, the "import sensitive" categories represent almost 40 percent of all U.S. textile and apparel imports. Growth from minor exporters would be severly curtailed under the bill's mechanism.

If enacted as currently drafted, this legislation would be exceptionally damaging to our international trade interests and would further limit the ability of retailers to offer customers the textile and apparel products they desire:

With its broad coverage, the legislation would restrict trade in fibers historically outside of the existing regulatory structure and never produced in large quantities in the United States; of silk apparel products;

Through the import licensing program, the Executive Branch would be given another means of limiting or impeding imports; the program would be a nightmare to comply with, since the legislation requires a separate for each entry of each of the approximately 250,000 textile and apparel entries made every month (in 1980) in the United States; moreover, depending on how the licenses are allocated, serious disruptions will occur—if by auction, small importers and retailers will be hurt and, if based on historic levels, newcomers to the trade will be most adversely affected;

Through the designation of small suppliers as "major" exporters and the establishment of arbitarily low growth restrictions, the bill will result in reduction of trade in wool, cotton, and man-made fiber products alone of between 20 and 30 percent;

As a result of the bill's drastic reduction from current trade levels, expanded coverage, and the new licensing requirements, American consumers will be burdened with substantially higher costs and reduced availability of many types of merchandise—costs that will be disproportionately borne by lower- and middle-income Americans;

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[1] One of the rationales for providing this less restrictive treatment is the proposed Congressional "finding" that "a change in United States textile trade policy to afford the smaller exporting countries and countries in the Caribbean region a relatively greater share of imports of textiles and textile products would promote the national economic interests of the United States." Notwithstanding this finding, the bill will impose greater restrictions on these countries and lower growth. The bill also does not contain provisions to remove the existing exemption for textile and apparel from the duty-free provisions of the GSP or CBI programs.

By substantially restricting imports in breach of international and bilateral obligations, the legislation will invite retaliation, particularly against U.S. agricultural exports; and

By legislating unilateral, arbitrary, and discriminatory import quotas, the bill would make it impossible for the President to negotiate an extension of the MFA.

Moreover, this restrictive quota and licensing legislation is particularly unnecessary in light of the availability of adequate remedies available under existing U.S. trade law. For example, section 201 of the Trade Act of 1974 (the "escape clause") provides relief when imports are demonstrated to be a substantial cause of serious injury to a domestic industry.

With respect to unfair trade practices, the antidumping law provides for the imposition of additional duties when foreign merchandise is being sold at less than fair value in the U.S. market and is injuring a U.S. industry. Similarly, the countervailing duty law provides for the imposition of additional duties whenever a subsidy is bestowed by a foreign country upon the manufacture or production for export of any article which is subsequently imported into the United States. Section 301 of the Trade Act of 1974 and Section 337 of the Tariff Act of 1930 provide further avenues of relief against unfair trade practices. Together, these laws provide more than adequate means of addressing injurious or unfair trade in textiles and apparel.

V. ECONOMIC TRENDS IN THE DOMESTIC TEXTILE AND APPAREL INDUSTRIES

The need for additional restrictions on trade in textiles and apparel has been justified by claims that rising imports have severely reduced domestic output and employment and now threaten to destroy the entire domestic fiber/textile/apparel complex. Imports have risen, but they have not caused the harm alleged. Moreover, exaggerated claims of impending disaster mask the extent to which most sectors of the industry are thriving today and fail to acknowledge the extent to which industry modernization has been primarily responsible for actual reductions in aggregate employment levels over the past decade.

The import threat has been greatly exaggerated.—The domestic textile and apparel industries remain strong, viable, and in control of their own destiny. Imports have increased in the past decade, but they still account for only about one-fifth of total U.S. consumption of textile and apparel products.

Increasing imports in the past decade have largely captured the incremental growth in domestic demand, without cutting deeply into the existing domestic manufacturing base. Overall U.S. fiber consumption, for example, rose from 10.8 billion pounds in 1974 to an estimated 13.0 billion pounds in 1984, a gain of 2.2 billion pounds. Domestic textile and apparel mills not only maintained their position, but enjoyed some of the past decade's overall growth in demand as well; the industry's aggregate consumption of fibers rose from 10.6 to 10.9 billion pounds. Imports accounted for the remainder of the increase in consumption.

The one area where imports do compete in a meaningful way is in the apparel sector. Even here, however, there are many industry segments where domestic production has remained steady or even increased in the past decade, despite rising imports. U.S. production of shirts and blouses, for example, rose from 96.5 million dozen in 1974 to 124.3 million dozen in 1983 (the last year for which data are available). In the aggregate, the amount of textile fibers consumed in domestic apparel production remained virtually unchanged between 1974 and 1983. U.S. apparel manufacturers remain a viable force, accounting for about three-quarters of the finished apparel sold in this country last year.

The dollar's strength seems to have stimulated an increase in the quantity of apparel yarn and fabric imports in 1984, but these imports served as raw material inputs for domestic apparel manufacturers and helped them maintain their own competitive position in the U.S. market. This may help explain why the domestic apparel industry, in the aggegate, has done relatively better than the textile mill products sector in dealing with current market conditions.

Major segments of the domestic textile market remain relatively free of import competition. In fact, the level of import penetration in two major market sectors—home furnishings and industrial uses—has hovered around 3 percent throughout the past decade. This situation is unlikely to change in the foreseeable future because of basic market factors that favor domestic producers over their foreign counterparts. these two sectors (apparel makes up the third sector) annually account for roughly three-fifty of total domestic textile fiber consumption and a significant portion of domestic textile industry employment. These sectors represent a large, safe haven for domestic manufacturers and insure the long-term viability of a large, productive textile industry.

Substantial improvements in productivity, not rising imports, have been the primary cause of actual employment declines in the past decade.—Domestic industry spokesmen point with justifiable pride to the substantial gains achieved in worker productivity in the past decade; 4.2 percent in textiles and 3.9 percent in apparel in each of the past ten years. These same gains seem to be forgotten entirely, however, when the discussion turns to textile imports. What is clear from the evidence is that actual declines in industry employment over the last decade are largely attributable to improvements in industry productivity. Thus, for example, the domestic textile weaving sector produced 16.0 billion square yards of broadwoven grey fabrics in 1984, compared to 15.2 billion square yards in 1974. Significantly, this rising level of production was achieved even as the industry reduced employment in this sector by over 80,000 workers, roughly one-fourth of the labor force employed a decade ago.

Current market conditions are related directly to domestic market forces, not rising imports.—The slowdown in textile and apparel industry activity in the second half of 1984 was largely a reaction to rapid changes in short-term domestic market consumer spending that began in the third quarter of last year. This abrupt swing in demand, following a strong two-year uptrend, precipitated a classic inventory adjustment cycle through much of the manufacturing/retail complex, a process that is still ongoing early in 1985. Imports were directly affected by this slowdown in demand, having fallen steadily during July-December 1984. In January 1985, this downtrend continued, with the aggregate volume of textile and apparel imports falling 7 percent below January 1984 levels. February imports also have fallen.

Aided by strong domestic demand and favorable exchange rate movements, imports rose throughout 1983 and the first half of 1984. There is a little evidence in this rise of any permanent change in the basic competitive relationship between domestic and foreign producers—nothing to indicate an end to the long-term viability of the domestic textile and apparel manufacturing industries. That the more recent slowdown in domestic industry activity is not primarily attributable to rising imports is apparent from a review of underlying trends in textile supply and demand in the past two years.

By any measure, 1983 was an exceptionally good year for the domestic textile and apparel industries. From its recessionary low in 1982, U.S. textile fiber consumption rose by 1.7 billion pounds or more than 18 percent in 1983; the increase in quantity was the single largest year-to-year gain ever recorded. Rapid real growth in personal consumption expenditures for clothing, housing and automobiles, the key components of textile damand, coupled with the normal inventory building that accompanies a recovery, pushed total fiber consumption steadily higher throughout the year. U.S. textile and apparel manufacturers accounted for approximately 80 percent of this increase in aggregate domestic consumption. The strength of the domestic industry's performance is apparent from the steady rise in output and capacity's performance is apparent from the steady rise in output and capacity utilization at all levels during 1983, higher employment levels, and substantially improved profitability. Although imports increased in 1983, domestic manufacturers were the primary beneficiaries of the economic recovery.

In late 1983 and early 1984, the prospects for further improvement in textile demand seemed favorable. Real GNP was still advancing well above its long-term trend line, employment and personal income were continuing to rise, and consumption expenditures were still trending upward. Apparel consumption in particular continued to show tremendous strength. Personal consumption expenditures for clothing rose three times faster than personal consumption expenditues generally between August 1983 and June 1984. The domestic home furnishings market also was enjoying a strong resurgence, aided by the best new residential construction market in five years and increasing resales of existing homes. Industrial markets were experiencing rapid growth as industrial production moved steadily higher with the continuing economic recovery.

As so often happens, actual events failed to live up to expectations. Having risen steadily in the proper 18 months, the primary components of domestic textile demand turned downward in the third quarter of 1984. Total personal consumption expenditures rose just 0.7 percent in third quarter following gains of 4.6 percent and 7.8 percent in the first and second quarters of 1984, respectively, Significantly, consumption expenditures for clothing fared far worse, falling by more than 14 percent in the third quarter. With hindsight, it is now clear that many retailers badly misjudged the market. Actual apparel demand never measured up to expectations and the effects of this were felt all through the fiber/apparel/textile pipeline. At the same time, housing activity softened noticeably in the face of rising mortgage interest rates. Domestic factory auto shipments lost momentum as well.

Developments in the third quarter of 1984 may ultimately be seen as a temporary retreat or consolidation in an otherwise continuing economic recovery. At that time, however, retailers and maufacturers of textile and apparel products reacted quickly to lower sales expectations by sharply reducing production and/or purchases. This adjustment process carried over and even intensified in the fourth quarter and the effects are still apparent in early 1985.

Import growth has moderated.—Textile and apparel imports reached record levels in mid-1984, drawn into the market by a strengthening domestic economy, overly optimistic projections of additional demand in key market segments, particularly apparel, and a steadily rising dollar. The impact upon domestic production and employment has been vastly overstated by some observers, however, and the effects are less long lasting than would appear at first glance. Indeed, imports declined throughout the second half of 1984 and January and February 1985 imports were below their year-earlier levels.

Imports are relatively less responsive to sudden changes in market conditions over the short run. Buying overseas normally entails longer lead times than purchasing domestically and purchases abroad, once made, are generally irrevocable. Payment is made when the order is placed rather than at the time of delivery. As a result, the import pipeline cannot be easily or quickly shut off. Thus, it is not surprising that imports were substantially higher in the third quarter of 1984 even as domestic manufacturers were beginning to throttle back production to avoid accumulating inventories. The high level of imports entering in July, August, and September may have appeared entirely justified when orders were placed in the later half of 1983 or early in 1984. Their arrival on the market in mid-1984 no doubt helped to contribute to short-term oversupply problems.

Ultimately, imports must respond to the same general market conditions influencing domestic activity, and this has been the case once more with the current business cycle. Imports, when lead times are factored out, are responding in a similar fashion to the same market conditions that forced a reduction in domestic textile and apparel manufacturing activity in the latter half of 1984.

So it is clear imports are not rising unabated, even as domestic industry activity adjusts to current economic conditions. To the contrary, imports are reacting in the same manner as domestic production, when time lags are taken into consideration.

Unfavorable exchange rate movements are a major factor in recent import growth.—The high level of textile and apparel imports in 1984, is, to some extent, part of a broader pattern of rapid import growth across the entire manufacturing spectrum. U.S. imports of textile and apparel products rose in value by roughly 39 percent in 1984. But total U.S. merchandise imports increased by 28 percent and many individual product sectors rose even more rapidly than textiles. Imports of machinery and transportation equipment, for example, increased in value terms by 41 percent last year. Just the year-to-year increase in this sector ($32 billion) was double the value of all foreign textile and apparel products entering the U.S. market in 1984 ($16 billion). Thus, the high import growth rate in textile and apparel can be seen as one aspect of much larger trend—rising imports generally in response to the constant rise in the dollar's value in foreign exchange markets over the past four years.

Exchange rate movements have had a particularly negative effect on U.S. trade in textile and apparel products. Since the second quarter of 1980, the dollar has risen by an extraordinary 113 percent against the currencies of the largest foreign textile suppliers to the United States when measured on a textile import trade weighted basis. In the case of apparel, the dollar has risen by 50 percent over the same period. There is an obvious and undeniable correlation between the dollar's position relative to other currencies and rising imports. This seems especially true in the area of apparel yarns and fabrics, the largest single source of import growth in 1984.

The strengthening dollar also has hurt U.S. textile export interests. On a volume basis, U.S. textile exports have fallen by almost half since 1980. Sluggish economic conditions in major overseas consuming markets and shifts in products mix have contributed to the decline, but the dollar remains a primary culprit in the recent drop in exports.

The dollar's problem are complex in nature and transcend trade issues in any particular product sector. The solution lies in reigning in the power of the dollar, whether through reduced budget deficits and lower interest rates, market intervention, gaining improve market access in other countries, or promoting a strengthened world economy. Additional restraints against textile and apparel imports cannot and would not serve the same purpose and would in the end prove counterproductive

CONCLUSION

The domestic textile and apparel industries are currently receiving far more import protection—in the form of an international restraint agreement, extremely high tariffs, and exemptions from various trade liberalization program—than any other domestic sector. Notwithstanding the serious impediments to trade created by these restrictive devices, the industries now seek more relief with the Textile and Apparel Trade Enforcement Act of 1985.

Such drastic action not only is unwarranted in light of current restrictions and the availability of import relief laws, but also is objectionable as an open invitation for retaliation by our trading partners. Past experience (e.g., China's refusal to buy U.S. soybeans and grain after onerous, unilateral textile quotas were imposed in 1982) confirms that U.S. exporters will pay a price for this action.

Moreover, as has occurred over the last two decades, such legislation will threaten the viability of a new round of trade negotiations. Prior to or during all of the last four major international trade negotiating rounds, the domestic textile and apparel industries have influenced the Administration's negotiating authority or positions to the detriment of all other sectors of the U.S. economy. Opening market access in other countries for our competitive agricultural, high-tech and service exports depends on a demonstration of America's commitment to open trade. Enactment of protectionist legislation for one selected group carries a heavy price—shutting off export markets to other sectors of the economy—which cannot any longer be considered to be consistent with the national interest.

Textile and apparel have been accorded special treatment for decades. The recurring requests for more and more import protection continue, notwithstanding the breadth of protection already available and the robust health of many facets of the textile and apparel sector. There is simply not justification for further expanding this special protection, especially in the face of the additional costs it will impose on American retailers, consumers, and exporters and the harm it will inflict on the broader interests of U.S. international trade policy.

Mr. ANDRES. Now, also appearing with me this afternoon is Lee Abraham, chairman and chief executive officer of Associated Merchandising Corp. I want to give you a brief background on Lee and Associated Merchandising Corp. because I think he can give the subcommittee a unique look at the buying end of the retail business. AMC provides detailed market analysis and assistance in buying to a variety of retail companies, including my own. AMC's staff, headed by Lee, starts in the United States; if they can't find an item here, they literally scour the world to find the best value for these companies. They know or can find out immediately everything there is to know about a particular product and where to go to find it. That is AMC's business; it is not itself a retail selling business, but rather, it is a specialist. We think it is the best in the buying and merchandising area. Lee himself has been head of AMC for 9 years, and has 25 years of direct retail experience prior to coming to AMC. Mr. Lee Abraham.

STATEMENT OF LEE ABRAHAM, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, ASSOCIATED MERCHANDISING CORP., ON BEHALF OF THE RETAIL INDUSTRY TRADE ACTION COALITION

Mr. ABRAHAM. Thank you very much. Thank you, Bill.

Mr. Chairman and members of the committee, I am Lee Abraham, chairman and chief executive officer of the Associated Merchandising Corp., the largest merchandising, marketing, and consulting firm in the retail industry. AMC is a nonprofit corporation, wholly owned by our shareholder stores, which number 37 in the United States and 16 overseas. These include department stores such as Woodward & Lothrop, here in Washington; Liberty House in Hawaii; all of the divisions of Federated Department Stores, which of course includes Bloomingdale's, Burdine's in Miami, Foley's in Houston; Carson, Pirie, Scott in Chicago; and, of course, Bill Andres' group, the Dayton Hudson Stores, headquartered in Minneapolis. We also service promotional stores such as Bradlee's, Mervyn's, Target, and Gold Circle. Overseas shareholders include Harrod's and the House of Fraser in England, Galleries Lafayette in France, Metro Stores of Singapore, and other fine department stores throughout the world.

I am here today as a member of the executive committee of the Retail Industry Trade Action Coalition to talk to you about the negative impact on the consumer of both the current restrictive textile and apparel system, as well as the proposed extension of that restrictive system, as in H.R. 1562, for it is the consumer far more than the retailer who will be hurt by these restrictions.

And incidentally, Mr. Chairman, when I refer to the consumer, of course I am including the textile and apparel workers, as well as their families.

Bill Andres has already given you the big picture relative to the enormous cost to the consumer of the current restrictions. I'm not going to talk in billions. I think if we can bring the issue down to the dollars and cents coming out of each customer's pocket, the problem becomes that much more real.

So let me start, if I may, with children's wear, which has been the hardest-hit by America's protectionist measures because of the way the quota system is set up. The problem begins with the fact that any garment sized above 24 months shares quota with either men's or women's apparel. Manufacturers understandably give preference to larger sizes because they want to get the highest prices possible per unit produced. This has combined with increased restrictions over the past 2 years to produce a rapid escalation of prices for children's wear. Last year, RITAC analyzed——

Chairman GIBBONS. I'm sorry, I didn't understand you. You mean in the quota system, they count apparel for children of what age?

Mr. ABRAHAM. Up to 2 years is treated as infants. Over 2 years, it falls into the same quota categories as adult merchandise. In other words, it's a top; it could be a ladies' top, it could be junior's top, it could be a children's top. So with so many units available through the quota system, the overseas manufacturer therefore has an option of what he's going to produce, and then, of course, veers toward the more expensive item because he's able to therefore increase his volume through the increased sale of more expensive products.

Chairman GIBBONS. That's after 2 years of age?

Mr. ABRAHAM. Yes, sir.

Last summer, RITAC analyzed the difference in retail price between a basic children's back-to-school outfit for fall, 1984, and the identical outfit for fall of 1983. The components of the outfit were an oxford cloth shirt, a fisherman's knit sweater, and a pair of corduroy pants. Overall, prices had increased 17 percent between 1983 and 1984. The price difference in each case was the direct result of higher quota charges and ensuing availability problems. I have with me today samples of this merchandise, and Julie Hughes, AMC's Washington representative, is going to just sort of show you what they are. We have tags on each which indicate the increase in prices which have occurred in the past 3 years.

The sweater, incidentally, we do not have an 1984 or 1985 price on, Mr. Chairman, because the sweater was no longer desired by the consumer. But if it were, that is an item, among others, as has been discussed today—or will be discussed—that is not produced here in the United States; yet, of course, it is restricted.

An update on the same outfit for fall of 1985 indicates a further increase of 10 percent for that oxford cloth shirt, and a jump of 16 percent to 36 percent, depending on the make, for the corduroy pants, a result of drastically reduced availability. In some of the countries in which we do business offshore there are some one or two plants in a country devoted to the making of children's wear or where the availability of children's wear is possible for our stores.

The irony of the situation is that the same quota system that is forcing these customers to pay more each year for the outfit described provides no benefit to the domestic apparel industry. There is no comparably priced oxford cloth shirt made in the United States. The closest item costs 38 percent more, and the quality is inferior. Nor is there a comparably priced corduroy pant.

It's important to emphasize here that these are not high fashion garments. These are basic school and play clothes which the average American family must buy each year simply because, as you well know, children outgrow their clothing that frequently.

Understandably, then, the children's wear customer is particularly price sensitive. In addition, quality and durability are prime considerations. Kids are just tough on clothes.

The problem does not end with children's wear. I have brought with me a couple of examples from adult garments. For the women, an oxford cloth shirt. The key point here is the truly enormous price differential between the two samples which you now have up there in front of you. The white shirt you're looking at now costs $4.35, whereas the domestic product, the purple shirt, costs $10.50. This is as close to a true apples-to-apples quality comparison as we could get. Now, it's possible in the United States to buy a U.S.-manufactured shirt at a lower price, but it would be lower quality; it would not be comparable to the sample of the white shirt that you have before you.

For the men's—and we'll move just on to this— the yarn-died plaid, the quality of the domestic product, which is the multicolored one which Julie is just putting over there, is significantly inferior. It lacks the two-button cuff; and perhaps if you just hold up the cuffs of the two shirts side by side, you would see the difference. The placket on the cuff, which is that little piece on the back side of the cuff that goes up the arm, and the box pleat on the back of the gray shirt, which is the one, I believe, that Congressman Frenzel is holding—right—there is a box pleat on the one; there is none on the other. So there are significant differences between those two shirts.

In addition, AMC was able to work with the foreign manufacturer to produce unique combinations of color and pattern that will provide some measure of exclusivity for the stores. Finally, of course, the imported product cost 25 percent less than the domestic item.

Given all this, I have to ask, what are we protecting? I think we heard this morning the numbers, and that is that a textile job at $10,000 a year, when the protection, according to the Federal Trade Commission, cost the consumer $35,000 per year, per job. American retailers would like nothing more than to support the U.S. textile and apparel industry. AMC has stores like Boscov's in the heart of the Pennsylvania apparel manufacturing region, and Parisian, surrounded by Southern apparel producers who count large numbers of textile and apparel industry workers in their customer base. They'd like nothing more than to support these local industries, their local economies, but in certain instances, as I've shown you, their hands are tied. There are simply no acceptable domestic alternatives to imports.

Still, we shouldn't lose our perspective. Imports represent only 10 percent, on average, of what retailers purchase on a direct basis. The other imports in the market are brought into this country by other American businesses, some of whom are solely importers; but increasingly, others are U.S. manufacturers. They, too, have recognized that the crucial price, availability, and quality equation can simply not be realized domestically in certain categories of goods.

To illustrate how we make some of our buying decisions, let me return——

Chairman **Gibbons**. Let me interrupt you there. Are you saying that American clothing manufacturers import?

Mr. **Abraham**. Yes, sir; yes, sir, I am saying that, that a large number—and I don't know that——

Chairman **Gibbons**. What do they do with them? Do they sell them?

Mr. **Abraham**. Of course. A company—let me give you some examples. I would say that probably, even though we're looking at shirts, that the men's shirt industry here, people like Cluett Peabody, Manhattan, Gant, and a number of others, are probably among the most productive industries that we have in the textile field. The people in those industries who are selling lower priced units, lower priced garments, if you will, import significant amounts of shirts which they resell to the U.S. retailer. So we are buying from a Cluett or from a Van Heusen whose practically—I guess their whole lower-priced line—all comes from the Far East. And that's not unique. More and more of the people that we are doing business with, manufacturers, are in effect importers as well. And it's a real problem from their standpoint because they have a balancing act. They have U.S. production and they have offshore production. But more and more of that is occurring, Mr. Chairman.

To illustrate how we make some of our buying decisions, let me return to the two men's shirts we looked at before. Attached to my oral statement is a chart showing the key points of comparison that we look for when we evaluate the buying of these shirts or, in fact, any other product. The ultimate decision whether to purchase one product or another—in this case, the imported or domestically produced item—is the result of our analysis of these factors. Here the imported shirt is the same fabric and basic style, but it is priced 25 percent lower and has the quality and unique features that I noted a moment ago.

The domestic product comes with its own advantages, mostly related to the ease and certainty of doing business with a domestic manufacturer. For example, the reorderability of the item, the shorter lead time for the placement of our orders, the ability sometimes to return unsold items, the elimination of some of the costs associated with importing—and there are significant costs associated with this—and the inclusion of certain other costs in the base price of the domestic shirt.

When we consider all of these factors, the balance—in this case—favors the import. The point I want to stress to you is that it is a balancing process. And when the balance, figuring in a whole series of factors—not one single factor alone—favors a domestic product, we are more than happy to buy that product.

On that point, let me step outside for a moment of my RITAC role, and state emphatically that AMC, the company that I represent, is prepared to sit down with any domestic manufacturer to see if a balance can be tipped in favor of the U.S. product. Retailers have sometimes been criticized for not working closely enough with our U.S. suppliers, and my point today is that we want to erase any such notion. We do want to work with the U.S. manufacturers, such as Mr. Mariani from Salt Lake City, and we will buy domestically whenever the overall price equation—and I do not mean just price alone —is favorable for the U.S. garment. To expand this just slightly, if the equation is even close to equal—not necessarily in favor of the domestic item—we will buy the U.S. garment.

Let me conclude with what I think is the real key to solving the textile and apparel problems in the United States. We must focus on the ability of domestic companies in these industries to become, as Bill Andres has just said, to become truly competitive and on getting workers either into jobs in such competitive companies, or into jobs in other industries. Any import protection given to the textile and apparel industries must be for the purposes of making this transition, and our attention to the situation facing workers must address their very real needs.

I think that Monday's New York Times hit the right notes in this regard. In its lead editorial, the Times focused directly on textile and apparel workers and quite clearly stated both the promise offered these workers by our growing and dynamic economy, and stake that our whole society has in the more productive use of their labor. The Times accurately reported that new jobs for our clothing and textile workers will probably pay as much as or more than their current jobs, but the Times also noted that, in the abstract, this statistic is no comfort for the workers and communities that depend on garment-making. If Americans want to continue to benefit from cheap imports, we must accept responsibility for these people and these places.

Mr. Chairman, as you and the other members of the subcommittee travel over the next 10 days throughout the towns of the textile belt, I want you to know that we agree that something should be done to solve the problems of those towns and those citizens. What does not make sense to us, however, is to saddle the consumers of this whole country with costs that far exceed the value of the jobs that are saved and to keep workers in jobs that, for the moment at least, have no real futures.

As we recognize these problems we should strive to avoid political gridlock which results when all of us involved in this dispute—retailers, importers, producers of textile and apparel products, and workers and their representatives—work feverishly to pursue their own perspectives to no one's ultimate benefit. I think, and a number of my retail colleagues agree, that we should be prepared to talk to anyone who is willing to join a dialog about solutions, how to move to freer trade in textile and apparel at the same time as we work toward making our own producing industries as competitive as possible, and we find ways to ensure that our workers have jobs with long-term futures. We look forward to constructive dialog to this end.

I thank you very much for the opportunity to appear here today.

[The prepared statement follows:]

STATEMENT OF LEE ABRAHAM, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, ASSOCIATED MERCHANDISING CORP., ON BEHALF OF THE RETAIL INDUSTRY TRADE ACTION COALITION

Mr. Chairman and Members of the Committee, I am Lee Abraham, Chairman and Chief Executive Officer of the Associated Merchandising Corporation (AMC), the largest merchandising, marketing and consulting firm in the retail industry. AMC is a non-profit corporation, wholly owned by shareholder stores, which number 37 in the United States and 16 overseas.

These include Woodward & Lothrop here in Washington; Bloomingdale's Burdine's in Miami; Foley's in Houston; all divisions of Federated Department Stores, headquartered in Cincinnati; Carson Pirie Scott in Chicago; and the Dayton/Hudson group, headquartered in Minneapolis. Overseas shareholders include Harrods/House of Fraser in England; Galeries Lafayette in France; Metro Stores of Singapore; and other fine department stores throughout the world.

Among the many services provided to these stores by the AMC are worldwide consumer, market, and fashion trend research; quality control; and the facilitation of merchandise purchasing in domestic and overseas markets.

I am very pleased to have the opportunity to speak today on behalf of the Retail Industry Trade Action Coalition. The purpose of my presentation is to illustrate how consumers and retailers have been harmed by the current restrictive textile and apparel system, and to explain RITAC's views on how the consumer will be even more seriously hurt if the Textile and Apparel Trade Enforcement Act of 1985 is enacted.

The retail industry last appeared before the Subcommittee on Trade in December, 1981. At that time we discussed in detail the additional costs and frustrations faced by both retailers and consumers, as a result of hightened textile and apparel import restrictions. Today, the situation is even more severe, as evidenced by the following examples.

One area, childrenswear, has been hardest hit by America's protectionist measures, because of the way the quota system is set up (any garment sized above 24 months shares quota with either men's or women's apparel). As a result, childrenswear has seen significant increases in cost and reductions in availability. The reason for this, in simplest terms, is that when unit restrictions are placed on any given manufacturer's production, that manufacturer will want to get the highest price possible per unit produced. Given the cost difference between childrens and adult sizes, preference is always given to the larger garments.

To gauge the impact of existing quota restrictions, during the summer of 1984, RITAC and the Merchants Action Committee on Trade of the National Retail Merchants Association analyzed the difference in retail price between a basic children's "back-to-school" outfit for Fall '84, and the identical outfit for Fall '83.

The components of the outfit were an oxford cloth shirt, a fisherman's knit sweater, and a pair of corduroy pants. Overall, prices had increased 17 percent between 1983 and 1984. The price difference, in each case, was the direct result of higher quota charges and ensuing availability problems.

A recent update on the same outfit for Fall '85 indicates a further increase of 10 percent for the oxford cloth shirt, and a jump of 16 percent to 36 percent for the corduroy pant—a result of drastically reduced availability.

The irony of this situation is that the same quota system that is forcing these customers to pay more each year for the outfit described, provides no benefit to the domestic apparel industry. There is no comparably priced oxford cloth shirt made in the U.S.; the cost difference is 66 percent and the quality is inferior. Nor is there a comparably priced corduroy pant. To be more specific, because AMC was forced to cancel a childrens corduroy pant program from Singapore last year due to quota problems, and because our merchants have been unable to find sufficient production space overseas for '85, we have had to place orders domestically for lesser quality goods. The cost difference ranges from $3.45 for a pant of lesser construction (unbelted) and quality, to $6.43 for a truly comparable garment. In short, a consumer unwilling to compromise on quality in childrenswear will be forced to pay more than twice as much for basic corduroy pants in 1985.

Three factors must be taken into consideration to appreciate the significance of this problem. First, this is not "high fashion" merchandise for which the consumer might be willing to pay a premium. These are basic school and play clothes which the average American family *must* buy each year, simply because children outgrow their clothing that frequently.

Second, yet as a result of the first, from the consumer's viewpoint, this is an area of particular price sensitivity, a fact borne out by extensive consumer research. Finally, and again documented by research, it is an area in which quality/durability is a prime consideration in purchase decisions.

Cotton sweaters are another good example of consumer demand coupled with little domestic availability. Because restrictions are very tight overseas, children's sweaters are simply priced out of the market. Indeed, the tight quotas in this category mean overseas vendors are simply unwilling to make children's cotton sweaters, and the few domestic cotton sweater producers there are, are working at full capacity to meet demand for adult sizes.

In light of all this, we must ask one question: what are we protecting? American retailers would like nothing more than to support the U.S. textile and apparel industry. In fact many of us, from the major chains such as Sears and J.C. Penney to the 37 AMC department stores, instruct our buyers, as a matter of course, to investigate domestic opportunities before looking overseas. AMC, for example, has stores like Boscov's, in the heart of the Pennsylvania apparel manufacturing region, and Parisian, surrounded by Southern apparel producers, who count numbers of textile and apparel industry members in their customer base. Supporting those local industries would mean supporting their own local economies—with all the inherent advantages. But in their, and our, overriding search for the best product at the best possible price, our hands are often tied. Because of the significant price differentials, in many instances, there are no acceptable domestic alternatives to imports.

Still we should not lose our perspective. Overall, only 10 percent of the AMC department store purchases are direct imports. In fact, despite the pivotal nature of imports in the basic childrenswear business, the direct import percentage is under 9 percent. Our largest suppliers are domestic—vendors like Health-Tex, Carters and Osh-kosh.

This represents yet another consideration relative to the further quota restrictions. For, as a direct result of the intrinsic value of imports, these major brands are routinely discounted by 20 percent to 25 percent. Eliminate that competition, and the prices go up—at the expense of the American consumer.

Beyond childrenswear, to reiterate, the direct import percentage for retailers is only 10 percent. The other imports in the market are brought into this country by other American businesses—some of whom are solely importers but, increasingly, others of whom are U.S. "manufacturers." They to have recognized that the crucial price, availability and quality equation can simply not be realized domestically in certain categories of merchandise. So they go overseas, often combining in a single merchandise collection, a sweater made in the Orient with pants, skirts, coats, etc. made here in the United States. (When we purchase merchandise from these companies, we are often not even aware of whether the goods are manufactured here, or overseas.)

Retailers have been forced to make these same decisions in several key men's and women's apparel categories. For example: men's full-fashioned shetland-like wool sweaters are produced by only a few factories here. The cost of the domestic sweater averages $14. A comparable, but heavier sweater made overseas costs $8.38. Most importantly, the factories in the United States are unable to meet the strong demand for this important merchandise.

Men's woven, yarn-dyed plaid sport shirts are produced more widely than full-fashioned sweaters, but even the big brands that own U.S. factories import some or all of these garments. Their reasons, like ours, stem from the price/quality comparison: the domestic private lable product averages $8, the import $5.97—and the latter includes single needle tailoring, full sleeve plackets and a box pleated back, whereas the domestic shirt does not.

Women's solid woven camp shirts and oxford cloth shirts at budget and main floor price points are simply unavailable in the domestic market. The import price on the camp shirt is $3.98; the domestic price is $7.82. The comparison on the oxfords is even worse—$4.35 if produced overseas versus $10.50 here. It should also be noted that the majority of this business is placed in China, India, and Sri Lanka. Traditional markets such as Korea and Hong Kong have priced themselves out of the basic shirt business. If we were not able to utilize these markets, the basic shirt at approximately $10 retail would be unattainable.

Quite frankly, we would rather this wasn't the case. Retailers prefer to "buy American". Given this, it seems appropriate to respond to the charge that retailers only import merchandise to gain higher markups and profits. A decade or more ago, this may have been true. Retailers used high initial markups to establish a price, and were then able to maintain their profits when the merchandise was put on sale. But a great deal has happened in the retail market over the last ten years. Mass merchandising and off-pricing outlets have proliferated, causing tremendous competition. And consumers, as mentioned earlier, have become a lot smarter. They are fully aware of the similarities of stocks between one outlet and another, and they shop for price.

In the current environment, retailers rely on volume to create profits—that is, we need to attract the greatest number of consumers to the widest scope of merchandise. Price is a key factor in this competition, and imports are crucial in maintaining price and market share. Nowhere is this more true than for the lowest-priced goods In fact, the least affluent members of society rely most heavily on imports, and are most seriously affected when quotas increase our merchandise costs.

So in essence, imports serve two purposes. In the case of fashion merchandise, they provide individual retailers with some measure of exclusivity, that is, something to set them apart from the competition.

On more basic items, as with the childrenswear and budget examples cited earlier, imports allow retailers to realize some profit on sharply competitive, value-priced offerings which also meet consumers' quality demands.

In neither of these cases are maintained markups or profit margins substantially different than they are on goods purchased domestically. In fact, any comparison of domestic and import markups is misleading, because wholly different components have to be considered in the import markup formula. Imports involve a significantly higher buying expense than is incurred in domestic purchases. In order to import, retailers either maintain their own overseas offices as we do at AMC, or have agents abroad to whom substantial percentage commissions are paid. In order to select merchandise from overseas markets, expensive overseas buying trips are necessary. (AMC spends almost $2 million on buyer travel annually.) And, dealing with imports typically involves costs for samples and expenses in merchandise and packaging design. Communications expenses alone—telex, cables, telephone, overseas postage, etc.—cost AMC over $1.3 million last year. Also incurred are substantial costs for U.S. importing functions, including the expense for arranging foreign shipments and working with U.S. Customs and brokers.

Another major cost factor involved in importing is the long lead time between order and payment and retail sale. Typically, retailers must fully pay for imports by letter of credit prior to shipment. By contrast, retailers purchasing in the domestic market are given payment terms which may well permit them to sell the merchandise before payments to the vendor are required. Thus, retailers' money cost of roughly 1 percent per month is far higher on imports. The retailer also incurs higher warehousing costs on imported merchandise. Often, retailers must take delivery for an entire selling season, well in advance of that season, whereas domestic merchandise may be procured later and in smaller quantities with in-season reordering. The slower "selling turn" on imported merchandise (i.e., the longer interval between order and sale) reflects a higher, longerterm investment therein. And in addition to generating extra costs, this requires retailers to forego other opportunities, because once money is committed—even if only on paper—it is considered "out of the budget".

Risk factors on imported merchandise are also greater. Quality problems exist with respect to both domestic and imported merchandise. But domestic factories maintain their own quality control staffs, and the cost is built into *their* markup. Off-shore, the retailer assumes this responsibility. To this end, AMC has 75 inspectors in Europe and the Far East, and maintains a Bureau of Standards for testing purposes with offices in New York, Hong Kong, Korea and Taiwan. The extent of this inspection and control staff is necessitated by the fact that, once received, the return of faulty imports is virtually impossible. By contrast, particularly in view of deferred payment terms, retailers purchasing defective domestic merchandise have an opportunity to return it and avoid paying for it. Further, retailers are deemed to be the manufacturer of merchandise which they import for purpose of compliance with legal requirements applicable to the merchandise, whereas of course retailers assume no such responsibility on domestically manufactured merchandise.

Costs on imported merchadise are also uncertain. While the price retailers pay directly to foreign vendors may be settled, landed costs cannot be precisely determined at the time of ordering due to currency fluctuations, freight rate changes and variable packing costs. Customs classification, valuation and duty assessment decisions—often made months or even years after the merchandise is sold—may increase duties far above the anticipated level. In addition, unplanned air freight costs are often incurred due to shipping delays, and shipping delays also cause higher markdowns due to receipt of merchandise at the end of, or even after, the appropriate selling season. These costs and risk factors are generally absent in domestic transactions.

And retailers also incur higher costs in connection with imports by directly assuming costs which are often borne by or shared with domestic vendors on purchases from them. For example, foreign vendors rarely support retailers' advertising as compared with cooperative advertising, promotional programs and sales assistance which are frequently available from domestic vendors. Foreign vendors do not pay inland U.S. freight, whereas domestic vendors often do. Foreign vendors rarely pack for branch store distributions, whereas domestic vendors do. They also do not count inventory or train sales personnel, whereas domestic vendors do. Hence, internal costs are significantly higher on imports.

Finally, differences in circumstances between purchasing and selling imports vis-a-vis domestic merchandise lead to higher markdowns on import items. To import requires projecting up to a year in advance the style, color, and other features of merchandise. This increases the hazard that by the time the merchandise arrives, it will not be in style. The markdown experience on imports is worse not only for the above reasons, but also because domestic vendors may well extend return privileges or markdown allowances to retailers on domestically produced merchandise. In summary, merchandise defects inevitably result in markdowns; imported merchandise cannot be returned for credit; and, when all goes well and the imported item selected sells well, retailers generally have little or no opportunity to balance stocks (*i.e.*, reorder and assure a full range of size selection), with the consequence that higher markdowns must be taken in order to clear out remaining import inventory.

The above discussion makes clear that it is erroneous simply to compare the markup percentage on imported versus domestically procured merchandise without taking into account the various additional costs and risks in importing. It is likewise erroneous to assert that imports do not benefit consumers. The evidence of consumer benefit is overwhelming; it is confirmed daily in the marketplace by the consumers' purchasing decisions.

We presume that no one would seriously suggest that retailers should abandon their quest to procure merchandise at the lowest possible cost. We also presume that no one would seriously contend that government should dictate retail selling prices. Retailers' prices are effectively regulated by the marketplace. If an individual retailer's prices are too high, they will ultimately fall, either through consumers' refusal to buy the product, or competitors' underselling. The proof that this marketplace mechansim has worked effectively is in the modest profit margins of retailers, which are among the lowest of all industries.

EXISTING RESTRICTIONS

Among the myths currently popular in protectionist circles is one that claims that the Reagan Administration has done little to respond to the U.S. industries' calls for greater protection. As someone who deals day to day with the problems caused by the administration's actions, I can tell you that this myth is simply without foundation. To the contrary, this Administration has responded repeatedly to the domestic industry requests.

Let me illustrate with a brief chronicle of events from the last fifteen months alone.

On December 16, 1983, the President issued a directive to tighten restrictions on import growth. In response to a countervailing duty case filed against China by the domestic industry, the Administration agreed to a list of demands so that the CVD case would be dropped. The restrictions centered on placing quotas on categories which were unrestrained, by setting guidelines for "presumed"market disruption.

Without going into detail about these guidelines, the outcome has been an enormous increase in calls—well over one hundred in 1984.

In 1983 the U.S. government also threatened retailers with permanent embargo of any overshipments from foreign countries. What this would have done is penalize the U.S. retailer, rather than harming the overseas suppliers and their governments, who are responsible for the problem.

When the permanent embargo concept did not provide workable, a new restriction was announced (this past Christmas eve), which would restrict the release of merchandise in embargo. Traditionally, embargoed goods were released when the quota reopened. Under the new restrictions, the goods available to retailers were limited, causing us to face severe distribution problems. To illustrate, if a retailer gets only one quarter of the shirts they have ordered, they cannot effectively promote them, or meet their merchandise plans. Making matters worse, if not all of the embargoed merchandise is released after the quota reopens, other goods will continue to enter and could use up the quota. This means the retailer could end up with a new embargo before all of the previous year's merchandise is released.

Last summer, the revised regulations on country of origin were announced. The rules changed longstanding definitions of technical issues, such as substantial transformation, and thus the country of origin for textile and apparel imports. These rules totally disrupted the retail business. When the final rules were released in March of 1985, it became clear that they were created specifically to disrupt trade patterns between Hong Kong and China for the manufacturer of full fashion sweaters. Yet as mentioned earlier, this is a particularly limited area for domestic knitters, especially for the men's market.

Just last week, the U.S. government called categories from Israel and Portugal. The significance of this action is twofold. The call on Portugal was a restriction on a European country scheduled to join the European Economic Community in January 1986. Even more importantly to the U.S. Congress, the call on Israel clearly is in response to the proposed free trade area with Israel. The item restricted, cotton sheets, is one of the few textile and apparel items which are scheduled to become duty free as soon as the U.S.-Israel agreement goes into effect.

Since the Congress strongly supports the U.S.-Israel free trade area, it seems clear that this action to restrict their imports goes against the spirit, if not the letter, of the agreement. This is just another example of the way the textile and apparel program contradicts and often overrides the broader policy concerns of the United States.

PENDING LEGISLATION

Despite all of these actions, which have seriously disrupted the market, the domestic industry is now supporting additional legislation to restrict imports. As so often in the past, this legislation is described as the "one additional action" which will help the domestic industry.

The current system of restrictions on textiles and apparel can be called a nightmare, but the future would be bleak indeed if the proposed Textile and Apparel Trade Enforcement Act becomes law. There are four major problems that would immediately harm retail business.

First, the legislation would impose quotas on those products such as silk, linen and ramie which currently are not covered by the MFA. These fibers have never been covered by the MFA because there is no domestic industry which is harmed by imports. The general attitude seems to be that retailers have moved to these products because they are not covered by quota. But the fact is, retailers move in response to consumer demand. AMC can document, with several years of hard consumer research data, that our customers want natural fibers. That is why we are in those businesses. Yet, by imposing a unilateral quota on these fibers, we estimate trade will be restricted by more than twenty percent.

Second, the requirement for import licensing is a major provision in this legislation and one which greatly concerns the retail community. As we have already described, the current system of quotas, calls and embargo is extremely difficult to understand and to implement. In recent testimony a U.S. government official said the U.S. Customs Service processes approximately 250,000 separate textile and apparel entries each month. This is more than 3 million entries each year. Each entry usually contains multiple product categories, such as jackets and trousers, each of which would require a separate license. Since the Customs Service already is understaffed and overworked, the enforcement and issuing of licenses would be an administrative nightmare.

In Hong Kong, which is long recognized as the best-run quota system in the world, they rely on a large computer and hundreds of trained employees to run the system. And Hong Kong accounts for only 10 percent of the trade. It seems ridiculous to even suggest that the U.S. government could set up such a complicated system in only six months.

The cost of such a scheme certainly would be prohibitive and would be contrary to the Reagan Administration's commitment to reduce government regulation and expenditures.

Third, this legislation would severely disrupt world markets, especially in smaller countries. Although the legislation claims to favor new suppliers, most countries would be graduated to major supplier status as soon as their trade reaches the level of one-quarter of one percent of the U.S. market for textiles and apparel. At the end of 1984, sixteen countries met this requirement—Taiwan, Korea, Hong Kong, China, Japan, Italy, Pakistan, Canada, West Germany, Mexico, Indonesia, India, the Philippines, Thailand, Brazil, and the United Kingdom. Of this group, the members of the European Economic Community and Canada are exempted totally, while Mexico is guaranteed status as a small supplier country. As you can see, many of these countries are among the world's poorest. They rely on their exports of textiles and apparel to fuel their economy and provide much-needed foreign exchange. While claiming to provide for the lesser developed nations, the legislation actually will treat them more harshly than the current rules once their exports reach a market share of 1.25 percent.

Even worse is the treatment of "import sensitive" categories. Growth in these categories from all countries is restricted to one percent. The definition of "import sensitive" is set at import penetration of 40 percent, which includes over one-half of all apparel categories.

Obviously these restrictions would have a devastating effect on the retail community. The major suppliers and the "import sensitive" categories provide the bulk of imports for good reasons. The major supplier countries of Taiwan, Korea and Hong Kong have earned that title because they offer quality merchandise at good prices and also do a reliable job of controlling their quota system. Retailers, importers, and American manufacturers prefer to import from these countries because they know there will be no surprises. By cutting back their quota levels and leaving only one percent growth per year, the dependability of merchandise will be affected, likely leading to higher prices (to cover uncertainly) and reduced availability.

For similar reasons, certain categories have higher import penetration—usually because the domestic textile and apparel industry cannot meet the demand for that type of merchandise.

The fourth problem for retailers has already been described in detail by Bill Andres. Pending legislation violates our current international agreements and harms the prospects for serious negotiations on MFA renewal. If the U.S. government cannot negotiate in good faith in Geneva, then chaos may develop in the place of the MFA.

Let me conclude now by saying that the textile and apparel industry has received special treatment and protection for decades. The cost of this protection has been borne by retailers, but even more so by their customers. Rather than increasing the restrictions, we urge a reexamination of U.S. trade policy and the long-term objectives of our government.

COMPARISON CHART—YARN DYED WOVEN PLAID LONG SLEEVE MEN'S SPORT SHIRT

	Import	Domestic
1. Fabric	65/35 poly-cotton	Same.
2 Terms	Irrevocable letter of credit opened on order and paid upon delivery to overseas port.	Net 30 days after delivery.
3. Reorderability	None	Fill-in in-season (other patterns).
4. Lead time	Order October for July/August intro in stores	Order February/March for July/August intro.
5. Quality—construction details	Single needle tailoring	Not included.
	Full placket on cuff	Do.
	Box pleat on back	Do.
6. Exclusivity	Manufacturer-retailer joint development of:	Not available.
	pattern	
	colors	

COMPARISON CHART—YARN DYED WOVEN PLAID LONG SLEEVE MEN'S SPORT SHIRT—Continued

	Import	Domestic
7. Cost factors		
a. Base cost	$5.97	$8.00.
b. Additional costs borne by retailer	Shipping	Not applicable.
	Duty	Do.
	Customs broker	Do.
	Deconsolidation	Do.
	Inspection	Included in base cost.
	Freight forwarder	Not applicable.
	Letter of credit fees	Do.
	Communications with factory/overseas office	Insignificant.
	Packing	Occasional charge for branch shipments.
c. Uncertainties	Potential quota changes or embargos	Not applicable.
	Currency fluctuation	Do.
	Freight rate changes	Do.
d. Variables	Advertising—retailer bears total	Negotiable.
	Markdown allowance—retailer	Do.
	Compliance with U.S. regulations—retailer responsibility	Generally borne by manufacturer.
	Return policy—no provision	Sometimes provided by manufacturer.
	Warehousing—none, unless quota problems at U.S. port	Borne by manufacturer.
8. Intangibles	Not applicable	Support of American industry and workers.

[From the New York Times, Apr. 1, 1985]

OUR DEBT TO THE DISPLACED

America's apparel industry is under siege from low-cost foreign competitors. Hopelessly outgunned in the shopping malls, domestic garment makers and their labor union allies are counterattacking in the only place they have an advantage: the U.S. Congress. Bills have been introduced in both houses to roll back imports to 1983 levels and allow very limited growth in the future.

Such measures would be a costly mistake. But the opponents of protectionism for this and other uncompetitive industries must do more than preach the abstract advantages of open trade. Though the economy as a whole undeniably benefits from imports of low-cost clothing, apparel workers in North Carolina and New York do not. Nor do these workers' neighbors, who sell them groceries and teach their children. It simply isn't right—or politically realistic—for a wealthy majority to ask a minority to bear the burdens of traumatic change.

American manufacturers of cloth and yarn have held their own against foreign competitors by substituting sophisticated machinery for hand work. But no such "capital-intensive" fix is available in the production of clothing. Though domestic garment makers pay wages close to the legal minimum, they cannot undersell the clothing sewn by South Koreans, Brazilians or Chinese labor.

Only the Multi-Fiber Arrangement, a complex system of country-by-country and product-by-product quotas, permits the domestic clothing industry to hang on. And even that system has failed to stop foreign goods from increasing their American market share. Roughly one garment in two now purchased by Americans is made abroad.

Broadly speaking, the growth of labor-intensive imports is not only inevitable but also desirable. Rising living standards have always depended on the ever more productive use of labor. Work by Americans that could be done as well but much more cheaply by Taiwanese or Turks represents, historically, a drag on the American economy. Moreover, the United States has a major foreign policy interest in cheap manufacture abroad. The growth and stability of developing economies—and their demand for American-made goods—depends on their exports of low-wage products.

Thanks to its flexible free-market system, America continues to create jobs as rapidly as they are destroyed by changing world market conditions. Virtually everyone who is put out of work by imports eventually finds other employment. For clothing workers who earn $5 or $6 an hour, the chances are that new jobs will pay as well or better.

But these abstractions are no comfort for the workers and communities that depend on garment making. If Americans want to continue to benefit from cheap imports, we must accept responsibility for what happens to these people and places. Congress tried in the 1970's by offering supplementary unemployment benefits for workers dislocated by imports. But this worthy first try was quickly labeled "burial insurance" by union leaders. The program, inadequate though it was, has been allowed to lapse.

A better remedy, in keeping with free-market principles, would be to get serious about re-employing the dislocated and subsidizing their relocation. The Federal Government has never attempted systematically to match blue-collar workers with jobs in other regions, the way white-collar workers are now routinely served by private employment agencies. Nor has Washington ever offered to help with moving expenses or tried to encourage relocation by retailing information about schools and housing. Nor has it ever made an intelligent, enduring effort to teach new skills to those whose experience is no longer in demand.

A prudent and humane society should neither resist desirable change nor cast aside its victims. American industry has always been on the move. New England was thrice transformed from dependence on farming, fishing and commerce to shoe and textile manufacture, to education, high tech and insurance. We need such vital change to remain prosperous. It would be foolish to cement so many jobs into place in every town or state. But it is cruel and ultimately untenable to turn a deaf ear to those who need help in moving with the tides.

Chairman GIBBONS. Thank you, Mr. Abraham.

Our next witness, if I can just find the list here, is the American Association of Exporters and Importers, Mr. Gluckson.

STATEMENT OF SIM R. GLUCKSON, CHAIRMAN OF THE GROUP, AMERICAN ASSOCIATION OF EXPORTERS & IMPORTERS, TEXTILE AND APPAREL GROUP, ACCOMPANIED BY MICHAEL F. DANIELS, COUNSEL

Mr. GLUCKSON. Thank you, Congressman Gibbons, Mr. Chairman. I also wanted to thank you about an hour ago for sitting here so long, but I've come to appreciate the problems that face this committee, as well as the industry. It's awfully nice to know that we've prepared what we think is our picture, but there's a bigger picture out there. And it was a very, very enlightening experience, and for that I sincerely wish to thank you, and now I'd like to make my statement.

Chairman GIBBONS. Thank you, sir. We appreciate it.

Mr. GLUCKSON. We do have a written statement which has already been handed in, and I'd just like to make a few comments.

Chairman GIBBONS. We'll include it in the record.

Mr. GLUCKSON. Mr. Chairman and members of the subcommittee, my name is Sim R. Gluckson; I am president of the Sunrise Knitwear Co., of New York City, a firm that's been in existence for approximately 60 years. I appear before this committee in my capacity as chairman of the Textile and Apparel Group of the American Association of Exporters & Importers. And I also had the privilege of serving on IRTAC, which is the Importers and Retailers Textile Advisory Committee. I am accompanied today by counsel to the group, Michael F. Daniels of the law firm Mudge, Rose, Guthrie, Alexander & Ferdon, if I could introduce Mr. Daniels.

These hearings come at a very sensitive and frustrating period in the U.S. economic history. The value of the dollar, our record budget and trade deficits, our agricultural difficulties are problems with no simplistic solutions. In periods such as this there is a tendency to look for a scapegoat. Importers fear that all imports, and specifically textile and apparel imports, will become the target. Not only is this grossly unfair, but it would be a tragic mistake not to really solve the problem. What is needed is for the Government to go after the root causes, the strong dollar, the budget deficit. Unless these problems are resolved, other actions alone will not be helpful. The textile and apparel industries are already the most highly protected of any U.S. industry, yet they are now pressing for new, highly protectionist legislation which is, in turn, self-defeating.

AAEITAG last testified on textile matters before this subcommittee in December 1981, just before the second extension of the multifiber arrangement. We introduced our testimony with the remarks of Senator Payne, at the time, of section 204 of the Agricultural Act of 1956, when it was introduced:

> The textile industry; does not seek favors. But it does ask, Mr. President, that the additional burden of ever-increasing imports not be added to its other troubles. The industry seeks a chance to adjust, to work out its problems, so that once again it can stand strong against all competition from whatever source.

These remarks were made on February 27, 1956. After 28 years of entrenched and ever-increasing protectionism, the time has come, we believe, to say "enough."

AAEITAG believes the recently introduced textile quota legislation, H.R. 1562, is a serious step in the wrong direction, away from adjustment and toward extremely harmful overprotection. Contrary to the industry's statements, the bill is totally inconsistent with the MFA. If enacted, it would constitute a complete breach of an international agreement. Enactment would render extension of the MFA impossible, and retaliation would almost certainly follow its enactment.

The bill covers all natural and manmade fiber products, including fibers such as silk, ramie, and linen, which were not covered by the MFA or other international agreements. It is discriminatory, we feel, penalizing the developing countries, contrary to the MFA.

This bill would severely cut back trade from what it defines as major exporting countries, countries which account for as little as 1.25 percent of U.S. textile imports. For example, in the most optimistic scenario, imports from Indonesia would be cut back by over 72 percent from their 1984 level; Brazil, over 58 percent.

And here I'd just like to put in my own question, if I may, sir. Brazil has problems. They have tremendous international debt. And yet we think of protectionism, certainly in the field of textiles. We want them to buy our planes; we want them to buy our nuclear projects; we want them to buy our agricultural products. And when they come to pay for it, we find these very, very stringent protectionist rules. It's something that concerns me greatly, and I wonder if the subcommittee might think about it.

The bill would also impose quotas on all products of even the smallest suppliers, even though much of their trade is now uncontrolled. Overall, the new bill cuts back trade approximately 20 to 30 percent. The bill allows only 1 percent growth for import-sensitive categories from all sources. These categories account for 40 percent of textile and apparel imports, and 60 percent for apparel imports alone.

The bill's import licensing requirement would be disastrous. The import entries of textile and apparel amount to $250,000 per month, or $3 million per year—half of all import entries of all products. Requiring import licenses for the many products involved in each of these entries would be an administrative nightmare costing many millions of dollars and requiring literally hundreds of employees. Unquestionably, such an import licensing scheme would be highly disruptive and an additional barrier to trade.

If enacted, the bill would stifle the development of many developing countries and threaten debtor countries with insolvency.

The bill's violation of the GATT and the MFA and its discriminatory tilt against developing countries would undoubtedly kill the current efforts for a new round of multilateral trade relations to liberalize world trade in agriculture, high tech products, and services, and to protect intellectual property rights, which the President has cited as a key U.S. trade policy objective.

The bill would also make negotiations on the MFA extension virtually impossible.

Finally, the cost of this legislation to importers, retailers, and consumers would be enormous.

Both the textile and apparel sectors recognize that their ability to adjust to market demands will determine their future success, and both sectors are in the midst of just such a process of adjustment.

A critical shift has taken place in the industry, away from pure manufacturing to multiple sourcing to meet market needs. And Mr. Abraham, I think, covered this extremely well. This does not only mean importing, it means a company deciding what to produce itself, and what to contract; whether to produce or contract domestically or overseas; whether to use domestic or imported fabric, and whether to use 807. What is profitable, and what is not.

It is the success of this process of adjustment which will ensure the apparel sector a continued major role in the U.S. market.

We realize that the textile mill sector is also adjusting to this changing marketplace. Domestic textile manufacturers are vertically integrating so they can utilize their own fabric production through section 807. The industry has also raised the possibility of enacting a so-called section 809 provision, parallel to section 807, which would allow a duty reduction based on the value of U.S.-produced fabric and imported manufactured products.

While the textile sector is not now actively pushing section 809, it nevertheless reflects a productive means to enhance the industry's competitive edge, which AAEITAG fully supports. The domestic textile manufacturers are among the most efficient in the world. With a shift of relative exchange rates to more reasonably reflect the value of the dollar, the industry will be highly competitive on a cost basis. The question is whether the industry is willing to accommodate to changing market requirements. Today's marketing strategies require a greater variety of fabric, with shorter runs of each fabric style. The ability to adapt to the market will determine their future success, and the apparel fabric into the 1990's.

Our written statement details the major problems existing in the administration of the textile program. These include the proliferation of consultation calls to establish quotas, many against small countries and suppliers such as Barbados, Mauritius, and most recently, one of the world's poorest countries, Bangladesh. Almost 300 of these calls have been made since they were first issued in 1981.

Government actions apart from calls, such as the Customs Service's new country of origin regulations, have also been highly disruptive and unfair. These actions too often are taken without notice and sufficient leadtime for compliance and are extremely costly to importers. I gather you gentlemen are aware of the major discussions—we heard the Government witnesses this morning—and I wish you to know that we were privy to the information after the fact, that we were allowed to help to make our comments, and did help in some of the adjustments on the bill. And for that, we are most grateful.

We urge the subcommittee to raise this issue with the administration, to keep the subcommittee's oversight function, and to make sure that the importers, and retailers, and those people affected are made aware before the fact, not after the fact. As important as it is to the domestic textile industry in their planning, it's important to us in our planning that we know what the Government has in mind. I think that's extremely important.

With the MFA scheduled to expire on July 31, 1986, consideration is beginning regarding the MFA's future. It is still too early to put forward a detailed proposal. We believe that the MFA must be phased out. However, if the MFA is to be extended, it must be liberalized and there must be a return to the original MFA principles and standards. It is essential that in the administration of the textile program, the United States adhere to these principles and standards, once agreed. It is also essential that the development of the U.S. textile policy, including its position on the MFA extension, be undertaken with the full participation of all the departments and agencies responsible for trade, and economic, and foreign policy matters, as well as all interested parties, to ensure that the broad national interest is served rather than the interests of any narrow group.

I wish to thank you personally for the opportunity to comment, and I really enjoyed the session today, sir.

Chairman Gibbons. Thank you, sir. You are brave to say that. [Laughter.]

I have learned a lot from the session today——

Mr. Frenzel. We could probably get him back tomorrow.

Mr. Gluckson. No, sir, but I'll be here next week and I'd love to meet with you, Mr. Frenzel.

Chairman Gibbons. We're going to be out junketing through Georgia next week.

[The prepared statement follows:]

STATEMENT OF SIM R. GLUCKSON, CHAIRMAN OF TEXTILE AND APPAREL GROUP, AMERICAN ASSOCIATION OF EXPORTERS & IMPORTERS

EXECUTIVE SUMMARY

Introduction

The current problems in the U.S. economy are largely the result of the overvalued dollar and the U.S. budget and foreign deficits. Imports are often turned to as a scapegoat; but restricting imports will not solve U.S. economic problems or the problems of the textile industry, which is already highly protected.

I. THE NEED TO ADJUST

The domestic industry recognizes it must adjust to changing conditions. The apparel industry must explore optimum sourcing options, both foreign and domestic. The textile industry must explore alternatives for adapting to the marketplace such as vertical integration and greater market orientation. Textile quota legislation will impede, not encourage such necessary adustment.

II. THE ECONOMIC CONDITION OF THE TEXTILE AND APPAREL INDUSTRIES

Statements concerning the threat of imports and impending disaster for the domestic industry are greatly exaggerated. The basic problem is the U.S. dollar which both encourages imports and discourages exports. The domestic industry's recent decline (actually amounting to just 1 percent for 1984) is a short-run phenomenon due to lower than anticipated demand in the latter half of 1984. Imports have also declined in response to these same factors, but with a slight delay due to the time lags inherent in importing. Inventory/sales ratios have now been adjusted and the predicted increase in consumer demand should translate into increased production.

Over the long-run, e.g., the last 10 years, domestic industry production has remained stable, and any declines in domestic industry employment have resulted largely from gains in productivity.

Sectoral relief for textiles is not the solution to the industry's problems. However, reducing the deficit and lowering interest rates would result in a lower-valued dollar, which would create a stronger world economy and stimulate foreign markets. Such action would restore the competitive balance between imports and domestic production.

III. TEXTILE QUOTA LEGISLATION

This legislation will result in severe restraints and rollbacks for imports of textile and apparel.

It is anticipated that the bill, if enacted, will result in rollbacks of 20-30 percent in imports of MFA products. Some of the smaller exporting countries will be hit especially hard. For example, Indonesia and Brazil will be cut back 72 percent and 58 percent, respectively.

The legislation's requirement for an import licensing system would be a very costly administrative nightmare.

The bill also would have severe adverse effects on our export markets of greatest potential.

The bill violates the MFA. The Bill also violates the Most Favored National Principal of the GATT and the GATT principle of special treatment for developing countries. Taking such actions will hurt the U.S.'s current efforts to negotiate on issues such as services and telecommunications.

IV. OVERREGULATION OF TEXTILE AND APPAREL TRADE

Since the extension of the MFA, the Administration has taken increasingly restrictive actions to limit imports irrespective of MFA principles and standards. It has forced highly restrictive agreements on Hong Kong, Korea and Taiwan, and an only slightly less restrictive agreement on China. There has been a proliferation of new calls evidencing a policy by the United States of moving away from negotiations toward unilateral action, which particularly affects small suppliers and new entrants. Additionally, the United States has developed criteria for finding a "presumption" of market disruption leading to an even greater increase in calls.

The United States arbitrarily changed its country of origin rules for textiles which had adverse affects on both importers and exporting countries. Particularly objectionable was the lack of adequate notice accompanying these changes. Lack of sufficient notice has disrupted trade on an increasingly frequent basis, as when they issued rules last fall to change the classification of "basket" category items so they would be subject to quota, and when a phased entry requirement was announced on Christmas Eve to take affect on January 2.

V. MFA EXTENSION

If the MFA is to be extended, it must be liberalized, and there must be a return to the original MFA principles and standards.

STATEMENT

Mr. Chairman, members of the Subcommittee on Trade, my name is Sim Gluckson, I am President of Sunrise Knitwear of New York City. I appear before this committee in my capacity as Chairman of the Textile and Apparel Group of the American Association of Exporters and Importers (AAEI-TAG). I am also a member of the Importers and Retailers Textile Advisory Committee. I am accompanies today by counsel to the group, Michael P. Daniels of the law firm of Mudge Rose Guthrie Alexander & Ferdon.

These hearings come at a sensitive and frustrating period in U.S. economic history. The U.S. dollar is at near record levels against other international currencies and the U.S. current account deficit exceeds one hundred billion dollars. We are on the verge of becoming a debtor nation for the first time in memory and our debts in a short time could easily become the world's largest. Our budget deficits threaten our future solvency, and our agricultural sector is in serious difficulty.

The solution to these problems is not easy.

In periods such as this, there is a tendency to look for scapegoats. As importers, we fear that imports in general will become the target. Not only is this grossly unfair, it would be a tragic mistake.

The rapid growth of imports is not a cause of our current problems. It is a byproduct of those problems, but one which yields substantial benefits to the American public and the economy in general by lowering prices, by spurring domestic competition and productivity, and by stimulating the economies of our trading partners to increase demand for U.S. exports of goods and services. Restricting imports will not solve our economic problems and could indeed aggravate them, as we have learned from past experience.

What is needed is to go after root causes—the strong dollar and the budget deficit. Unless these problems are resolved, other actions will not be helpful. If they are resolved, other actions will not be needed.

This is true particularly in the case of textiles and apparel. These industries are already the most highly protected of any U.S. industry. Import duties on textiles are more than double the average rate on dutiable manufactures and duties on apparel and other made-up textile products are more than three times the average. Over two-thirds all U.S. imports of textile and apparel products are already subject to quotas, and textile and apparel are among the few imports excluded from preferences under both the GSP and the CBI. Despite these protections, the industry is now pressing for new, highly restrictive special legislation to substantially reduce trade in these products and guarantee their share of the U.S. market.

AAEI-TAG last testified on textile matters before the Subcommittee in December 1981, just before the second extension of the Multifiber Arrangement (MFA). At that time, we introduced our testimony with remarks of Senator Payne in connection with the original legislation regulating textiles and textile products, Section 204 of the Agricultural Act of 1956:

"The textile industry does not seek favors. But it does ask, Mr. President, that the additional burden of ever-increasing imports not be added to its other troubles. The industry seeks a chance to adjust, to work out its problems, so that once again it can stand strong against all competition from whatever source."

These remarks were made on February 27, 1956, over 28 years ago. Unfortunately, they ring as hollow today as they did when we testified three years ago. Since then, the special protection constantly afforded the textile and apparel industries has become further entrenched and has intensified.

We firmly believe that the special treatment these industries received is unwarranted and is harmful to broader U.S. economic interests, and urge that action be taken to reduce the protection these industries enjoy so they can adjust to meet the needs of competition in fair and open trade.

I. The need to adjust

On the political front the domestic industry has issued tirades against imports and has insisted that absent draconian legislation to establish import restrctions it cannot survive. However, on the commercial front the focus is much different. The sober realities of day-to-day business require that domestic textile and apparel manufacturers recognize they must compete as individual companies and must adopt appropriate strategies to secure their positions in the market. This means that the textile and apparel industries as individual companies must adjust to survive in today's changing environment.

Both the textile and apparel sectors recognize that their ability to adjust will determine their future success. In 1984 the American Apparel Manufacturers Associated confronted this issue in an honest appraisal of the domestic apparel manufacturers' place in this environment:

"Today the U.S. apparel industry competes with apparel made in over 100 countries around the world. It is part of a global market, one which did not exist 25 years ago and which is characterized by a new set of rules and conditions, with new roles for its participants."

As it raised this issue, AAMA recognized that its members—the domestic apparel manufacturers—were well ahead of their leadership, and that the apparel sector had already undergone significant changes. Historically, the apparel industry found itself surrounded by big suppliers and big customers, but was itself characterized by small businesses unable to influence their market. In the early 1970's, there were no billion dollar apparel concerns, while there were at least three billion dollar textile companies and five retailers with over one billion dollars in sales. By 1983 the apparel sector had changed significantly, with approximately 30 companies with $200 million dollars in sales, accounting for 40 percent of 1983 domestic production.

Moreover, along with this transition from smaller to larger (and more diversified) firms, the industry had experienced a major shift in sourcing patterns. Of 177 member companies responding to AAMA's survey, 66—35 percent—indicated they imported apparel, with imports accounting for 22 percent of their sales, 6 percent in 807 and 16 percent in wholly foreign-made apparel.

What AAMA recognized was that a critical shift had taken place in the industry, from pure manufacturing to multiple sourcing with an emphasis on marketing. Thus, the critical factor to success in the current environment is to determine the optimum sourcing options to support the company's marketing requirements. As AAMA correctly pointed out, this does not only mean importing, but deciding whether the company should produce itself or contract for specific articles, whether to produce or contract domestically or overseas, whether to use domestic or imported fabric, whether to use 807. The effectiveness of this process of decision making, which many firms already are undertaking, will determine the domestic manufacturers' ultimate success or failure. Thus, while the domestic apparel industry issues public statements that it will not survive into the 1990's without additional protection against imports, industry observers see a different scenario:

"All in all, we think there are enough external and internal factors at work to provide a different scenario. Given these self-correcting changes in the system, accompanied by aggressive investment in 807 operations in the Caribbean, we feel that area could supply 10% of the U.S. apparel market by 1995. A more responsive supply system in the U.S., based upon closer understanding and cooperation with retailers, could well see domestic manufacturing supplying 55% of the market—and this would leave 35% for imports from other parts of the world."

(Remarks of James F. Trautman, Director of International Services, Knit Salesman Associates, KSA's 3rd Annual Sourcing Breakfast March 14, 1985).

The textile mill sector is also adjusting to this changing marketplace. As AAMA noted, domestic textile manufacturers are beginning the process of vertical integration so they can utilize their own fabric production:

"The industry's textile suppliers, understandably concerned over the future of their major market, are seeking new ways to utilize their fabric manufacturing capacity. One of these ways is forward integration: The establishment of apparel plants in the Caribbean to operate under 807 conditions, either as competitive extensions of their textile operations or as demonstrations to their customers that such operations can compete in the new world apparel market."

The industry has also broached the delicate subject of enactment of so-called "Section 809," a parallel provision to Section 807 which would allow a reduction from dutiability of the value of U.S. produced fabric in imported manufactured products. While the textile sector's Section 809 proposal was withdrawn almost immediately after it was put forward by the industry because of the objections of its allies in the apparel sector, it nevertheless reflects a productive means to enhance the industry's competitiveness which AAEI-TAG fully supports.

In addition, the textile mill sector must adopt the same marketing orientation required of apparel manufacturers. The domestic textile manufacturers are among the most efficient in the world, and with a shift of relative exchange rates to more reasonably reflect the value of the dollar, the industry will be highly competitive on a cost basis. The industry's weakness, however, is in its unwillingness to accommodate to changing market requirements. The industry is geared toward long, uninterrupted runs of basic fabrics, such as denim and corduroy, and when these fabrics were in great demand the industry prospered. Today's market requirements are different, as retail marketing strategies require a greater variety of fabric, with shorter runs of each fabric type. Textile companies' ability to adopt to this market requirement will determine their future success in the apparel fabric segment:

"The survivors will be those companies who successfully adopt a marketing orientation and structure their business towards serving the needs of the marketplace. They will be innovative and they will be specialists, and they will be more internationally oriented than the textile companies of today, both in the sourcing of their products and in their marketing to serve the apparel manufacturers around the globe who are sourcing the United States apparel market. The current emphasis on productivity must not be lost, but it must be harnessed towards the total productivity of the textile/apparel system in serving the needs of consumers. The emphasis will switch from the productivity of individual manufacturing processes and steps to the productivity of the total system, and the expanding use of data processing, telecommunications, micro-processors and robotics will enable us to shorten the lead times of the U.S. supply system, thereby making it more difficult for imports to compete." ("Textiles: Facing the Sourcing Challenges," Peter W. Harding, Manager, Textile Industry Services, Kurt Salmon Associates, Excerpts from a Speech, March 14, 1985, delivered at KSA's 3rd Annual Sourcing Breakfast.)

Industry analysts predict that if the textile industry is able to meet this challenge it will retain its position as the principal source of apparel fabric into the 1990's.

In order to meet the future demands of the marketplace, the domestic textile and apparel industries must recognize their competitive strengths and focus their attention and resources on enhancing those strengths.

"The greatest opportunities for combating imports lie within the domestic textile and apparel industries. A rift has developed between the textile and apparel industries as the latter focuses more on marketing to compete with low-cost imports. The successful apparel companies now compete more in terms of product differentiation and specialization rather than cost. Meanwhile, the textile industry's continuing focus on cost makes it to become less and less flexible in the styling and quantities of the products it offers.

"The challenge therefore to the textile and apparel industry is to change the supply system to use its strongest competitive advantage: proximity to the marketplace. If lead times can be dramatically reduced from the time a fiber is put into work to the time the finished product is put on the retail shelf, the competitive advantages of imports are significantly reduced. This approach shifts our focus from efficiency, or doing things better, to effectiveness, or doing the right thing. Our goal then becomes total productivity for the entire system of apparel supply, rather than focusing on the productivity of individual process steps.

"This approach works best in an environment of rapid change and short product life cycles, which is exactly what the textile industry has spent much of the last twenty years avoiding. The textile mills must become marketing oriented and focus on the needs of consumer, retailers and manufacturers for products and service, rather than on their own needs for running a narrow product range at high efficiency levels. This will require a dramatic change of thinking amongst textile management, because it is so contrary to the ways of the past. However, once textile companies redefine their business as serving the needs of their customers, rather than as manufacturing fabrics, many new possibilities are opened. These include both an international perspective, servicing apparel manufacturers make or buy decisions on the products they need to service their customers."

("Textiles: Facing the Sourcing Challenge, Peter W. Harding, Manager, Textile Industry Services, Knit Salesman Associates, Inc., excerpts from a speech delivered at KSA's 3rd Annual Sourcing Breakfast, March 14, 1985").

As the individuals most knowledgeable about the domestic textile and apparel industries recognize, in the final analysis, the marketplace determines which companies will succeed. The good companies won't stand pat; they will go adapt to meet the demands of the marketplace. The real question is whether the domestic textile and apparel industries will rise to this challenge. The textile quota legislation before Congress will do nothing to help the industry continue in its process of adjustment. On the contrary, it will insulate the industry from competition and provide an illusory sense that its adjustment is complete. Excessive textile trade regulation through Administrative action is similarly counter productive and ultimately self-defeating.

II. The economic condition of the textile and apparel industries

The introduction of the textile quota bill on March 19 was accompanied by horror stories about the threat of growing imports. This growth was viewed as a failure of the U.S. textile program as it currently operates under the MFA; and legislative relief was urged as the only way to avoid the complete disappearance of the textile industry in this country by the 1990's. These statements greatly exaggerate the current import situation and totally ignore the broader forces at work in our economy. Also, as detailed above, these statements misjudge the effect of imports on the future of the industry. They ignore the dynamics of ongoing adjustment to current economic conditions and to import competition, and grossly underestimate the ability of the industry to survive in a competitive environment.

The basic problem confronting the textile and apparel industries—the strong U.S. dollar, which not only encourages imports, but discourages exports—broadly affects our economy overall, and sectoral relief for the textile and apparel industries to combat this problem is both unnecessary and unwise. What is needed is the will to undertake the difficult task of reducing the deficit and lowering interest rates so that the value of the dollar will be more in line with other currencies. These actions will also help stimulate foreign markets and create a stronger world economy which will allow greater access for U.S. exports. The result of the interaction of these economic forces is that a competitive balance will be restored between imports and domestic production.

The current state of the domestic textile and apparel industries must be placed in some perspective. Ambassador Richard Imus, the U.S. chief textile negotiator, in March 6th testimony before the Government Operations Subcommittee on Consumer, Commerce and Monetary Affairs, noted that during the latter part of 1983 and the first half of 1984 the textile and apparel industries shared in the U.S. economic recovery. During this period, personal consumption expenditures were way up, and as a result, so were shipments, man-hours worked, and employment. Textile and apparel markets benefited from rising consumer purchasing power, inventory building, modernization efforts aimed at increasing productivity, strong demand for home furnishing fabrics and increased auto sales. by any measure, 1983 was an exceptionally good year for the domestic textile and apparel industries. From a recessionary low in 1982, U.S. textile fiber consumption rose by 1.7 billion pounds, or more than 18 percent in 1983, the single largest year-to-year gain ever recorded. The strength of the domestic industry's performance is apparent from the steady rise in production capacity utilization at all levels. During 1983, the domestic textile and apparel industries enjoyed higher employment levels, and substantially improved profitability. Although imports did increase in 1983 as well, domestic manufacturers were the primary beneficiaries of the economic recovery as evidenced by their 80 percent share of the increase in aggregate consumption.

In the beginning of 1984, imports were fueled by one additional factor, U.S. Government actions to restrict textiles and apparel. As detailed below, during 1983 and 1984, the Government's program of "consultation calls"—unilateral actions to establish quotas—accelerated dramatically, particularly following the announcement on December 16, 1983 of new criteria establishing a "presumption" of market disruption which would serve as a basis for issuing these calls. These actions sent shock waves through the importing and retailing communities. Importers and retailers reacted by accelerating their overseas purchase decisions and deliveries to avoid potential embargoes growing out of additional calls. Ironically, actions meant to slow down imports initially had the opposite effect, contributing to the oversupply that later existed at the end of 1984.

The slow down in textile and apparel industry activity in the second half of 1984 was largely a reaction to rapid changes in short term domestic market conditions, and not a reflection of a shift in import-domestic production competitive relationships. In late 1984 and early 1985, the prospects for further improvement in demand for textile and apparel products seemed favorable. Real GNP continued to advance above its long term trend line, employment and personal income continued to rise, and consumption expenditures were still trending upward. However, as so often happens in the highly cyclical soft goods trade, actual events failed to live up to expectations. After the favorable conditions of the prior 18 months, the primary components of domestic textile demand turned negative in the third quarter of 1984. Total personal consumption expenditures rose just 0.7 percent in the third quarter, contrasted with gains of 4.6 percent and 7.9 percent in the first and second quarters of 1984. Neither domestic manufacturers nor retailers had anticipated this situation.

As the general optimism of early 1984 crashed headlong into the reality of lower than anticipated demand in the later half of the year, market participants at all levels entered into a period of reduced sales leading to reduced output in an effort to reduce built up inventory.

The continued growth of imports in the third quarter of 1984 during a period of declining domestic output was a reflection of the fact that imports cannot respond to changes in market conditions as quickly as domestic production. Overseas purchases require longer leadtimes than domestic purchases and are generally irrevocable, as payment is made on the basis of irrevocable letters of credit. As a result, the import pipeline cannot as easily or quickly be shut off.

However, within a few months imports responded to the same general market conditions which had influenced domestic production. Import growth began to decline in the months of October, November, and December of 1984, just one quarter behind the decline in U.S. growth. In fact, imports in November had essentially fallen back to the prior year's level, showing a slight increase of just two percent over the previous year, in sharp contrast to the 67 percent recorded the previous July. The reduction of imports had recently become even more evident as imports for the first two months of 1985 were 5.7 percent below the first two months of 1984. In fact, when the time lags inherent in importing are taken into account, it is obvious that imports are reacting to the same economic factors as the domestic industry.

Thus the domestic industry's recent slow-down is not indicative of any long term trend, but the result of the unexpected weakening of consumer demand in the latter half of 1984 and the impact of the overvalued dollar. Now that the industry's inventory/sales ratios have adjusted, textile output has stabilized. With consumer demand expected to increase in view of the recent rise in the government's index of leading economic indicators, increased sales should quickly translate into increased output. Moreover, even with the dramatic decrease in demand in the latter half of 1984, overall domestic textile and apparel production is estimated to have declined by just 1% for 1984 as a whole.

In sum, the recent experience of the domestic textile and apparel industries is not reflective of its long term prospect. Overall domestic textile and apparel production has remained essentially stable during the past ten years. In fact, overall U.S. fiber consumption, for example, rose from 10.8 billion pounds in 1974 to an estimated 13.0 billion pounds in 1984, a gain of 2.2 billion pounds. Moreover, the textile industry in the U.S. is relatively free of import competition in major sectors—industrial uses and home furnishings—which account for roughly three-fifths of domestic fiber consumption.

As domestic production has remained stable over the last 10 years, any declines in domestic industry employment are largely the results of gains in productivity. Indeed, the industry has experienced productivity gains of almost 50% over the last 10 years. Under such circumstances, any decreases in employment are not an indication of industry distress, but rather of industry competitiveness, and part of the adjustment process necessary for the future health of the domestic industry. Additional protection, whether through legislation or administrative action is not needed to correct either the short term difficulties of the industry or to insure its long term viability.

III. Textile quota legislation

Despite the extraordinary protection accorded to the domestic textile industry for almost thirty years, the domestic industry is pressing for new, highly restrictive legislation. This legislation—ironically labeled the Textile and Apparel Trade Enforcement Act of 1985—has now been introduced. The purported purpose of this legislation is to achieve the objectives of the MFA and to promote the economic recovery of the United States textile and apparel industries. In reality, this bill will do neither. First, as noted above, the economic conditions currently affecting the textile and apparel industries are not sectoral, but broadly affect the economy as a whole. Solutions to these broader problems, not sectoral relief, are needed. Moreover, these industries are not, as they would have us believe, in dire straits. The cure lies in adjusting to market conditions, not providing greater protection.

Second, this bill does not "achieve" the objectives of the MFA; it is totally inconsistent with the MFA and if enacted would constitute a complete breach of an international agreement. Enactment would render extension of the MFA impossible. Retaliation would almost certainly follow enactment.

The bill first extends its coverage to all natural and man-made fiber products, including fibers such as silk, ramie and linen which were not covered by the MFA or other international agreements. It then exempts Canada and those countries who were member states of the European Economic Community on January 1, 1985 from its coverage. It defines as a "major exporting country," any country, other than a Caribbean Basin country or Mexico, whose imports account for 1.25 percent or more of all textiles and textile products imported into the United States. Major exporting countries are limited to one percent growth on each category of their imports. However, the base for this growth is the lesser of the country's 1980 level of trade increased at an annual rate of 6 percent for 1981-1984, or, if the country had a bilateral agreement providing for less than 6 percent growth for certain categories, the 1984 level of imports for those categories. This means that countries with as little as one quarter of one percent of the U.S. market will be subject to rollbacks, sometimes quite severe, in many of their export categories. Thus, for example, in the most optimistic scenario, imports from Indonesia would be cut back over 72 percent from 1984 trade; imports from Brazil would be cut back over 58 percent.

Major exporting countries include Singapore, Brazil, Thailand, Philippines, India, Indonesia, and Pakistan as well as Taiwan, Korea, Hong Kong, China, and Japan. However, countries with market shares as large or larger than many of these countries are not subject to the same, or indeed, any controls. Italy, Canada and Germany all have market shares larger than six of the so-called "major exporting countries." Great Britain has the same market share as does Singapore, but Singapore, a developing country, is considered a "major exporting country" and subjected to the bills blanket coverage of its products while Great Britain will have no quota limits at all. Thus, the bill is discriminatory on its face against certain developing countries which under the MFA are to get more favorable treatment and violates the GATT most favored nation principle.

The bill is also highly restrictive even toward what the bill considers to be the smaller exporting countries, including the Caribbean Basin nations and Mexico. The bill would impose quotas on all their products, although much of the trade is now uncontrolled. The bill allows a one time growth of 15 percent for non-sensitive import categories. However, import sensitive categories account for 40 percent of textile and apparel imports, and 60 percent for apparel imports alone. These will be allowed only one percent growth under the bill. Similarly, in subsequent years, these products, as well as all wool products, will be allowed one percent growth, and the remainder will be allowed only six percent growth. Smaller exporting countries (except Caribbean Basin countries) which are able to obtain 1.25 percent U.S. import market shares in a subsequent year will be considered "major exporting countries" for all succeeding years and all their trade will be allowed only one percent growth.

The bill also provides for what it euphemistically terms "minimum quantities," which in reality are import caps. Where the formula level of trade in a category is below certain minimum levels, ranging from 100,000 square yard equivalents to 1,000,000 square yards equivalents depending on the category involved, the bill would allow imports up to these minimum levels. However, these levels are so small, in practice the United States rarely imposes restraints at these levels. Under the bill, trade even from the smallest suppliers would be held to this level irrespective of the sensitivity of the product.

It is anticipated that if enacted this bill will result in rollbacks of total U.S. textile and apparel imports of MFA products by 20 to 30 percent in 1985 compared to 1984.

Another provision of the bill which would severely affect importers is the requirement that the Secretary of Commerce establish an import licensing scheme. Walter Lenahan, the Commerce Department's Deputy Assistant Secretary for Textiles and Apparel, has stated that import entries of textiles and apparel amount to 250,000 per month, or 3,000,000 per year—half of all import entries of all products (Testimony before House Government Operations, Commerce, Consumer, and Monetary Affairs Subcommittee, March 6, 1985). Requiring import licenses for the many products involved in each of these entries would be an administrative nightmare costing many millions of dollars and requiring literally hundreds of employees. In these times of government cutbacks in expenditures and resources, when the agencies administering the textile program, especially the Customs Service, are already understaffed and overworked, the establishment of an import licensing scheme makes no sense.

In addition to the substantial administrative problems inherent in this bill, and the substantial adverse effects on many textile producing countries, especially developing countries, enactment of the bill would severely damage our trading relations in a number of areas. As should be obvious, some of our major export markets, or potential export markets, will be adversely affected by this bill. The bill will stifle the development of many developing countries by draining them of important foreign exchange currency, and threaten debtor countries with insolvency. Without such necessary currency their ability to develop will be curtailed, as well as their potential as a market for U.S. products. The bill also invites conscious retaliation by affected countries.

Also, as previously noted, by excluding such developed countries as Canada and the EEC member states from its coverage, but including countries such as Pakistan, India, Brazil, Thailand, Indonesia, and Singapore, the bill is violative of the GATT's Most Favored Nation principle and the GATT prinicple of special and differentiated treatment for developing countries. Such discrimination against developing countries will severely hamper the current efforts for a new round of multilateral trade negotiations to liberalize world trade in agriculture, high tech products and service, and to protect intellectual property rights, negotiations the President has cited as a key U.S. trade policy objective. In this regard, the Economic Report of the President, submitted to this Congress in February 1985, pointed out on pp. 120–123:

"In previous multilateral rounds of liberalization, developing countries have not been required to reciprocate fully in multilateral tariff reductions by lowering their own trade barriers, and most still maintain substantial levels of both tariff and nontariff trade barriers. *These countries are unlikely to participate in further liberalization as long as key sectors in which they have a comparative advantage (especially textiles) are exempted from the liberalization process.* Substained progress in opening the capital and service markets of developing countries is not likely, for example, without accompanying progress for these countries in opening world markets for their manufactured products.* * *

"* * * At the most general level, a successful international strategy requires that the United States push aggressively forward on comprehensive multilateral trade negotiations under the auspices of GATT. At a more concrete level, the United States itself must be committed to comprehensive trade liberalization.* * *

With regard to products, the United States should push especially hard for liberalized trade in agriculture, services, telecommunications equipment, advanced electronics, automobiles, textiles, wood products, and steel, to mention just some of the major problem areas. The United States has much to gain from liberalizing these areas and *developing countries in particular will have reduced incentives to participate without the promise of liberalized textile trade.* In the industries above where the United States has significant restrictions—automobiles, steel, textiles, and agriculture—the costs of protection are large." (Emphasis added).

If the United States wants multilateral trade negotiations on issues such as services and telecommunications, it must be willing to offer something in return, especially to developing countries. Increasing its nontariff barriers on textiles by imposing quotas outside the structure of the MFA is not going to win the United States the support of most of its trading partners for renewed negotiations.

Moreover, as noted above, if enacted this bill will undoubtedly kill any chance of negotiating an extension of the MFA. Negotiations extending the MFA will begin this summer. The introduction of this bill was intended as the domestic industry's agenda for these negotiations, to put pressure on the President to adopt the domestic industry's position without regard to broader U.S. interests. Enactment of this bill would make MFA renewal impossible—preempting negotiations before they have begun.

Finally, as has been alluded to earlier, the costs of this legislation would be enormous. The import licensing scheme alone will require millions of dollars and hundreds of additional government employees to administer. Even more costly are the effects of this bill on the American consumer. Non-tariff barriers, especially quotas of this nature, impose tremendous costs on tne consumer, especially on lower and middle income groups. Not only is the result similar to imposing a regressive tax (like a sales tax on the alternative merchandise), but the supply of the merchandise is likely to decrease. This results not just in decreased choices, but in higher prices for the goods which are supplied.

IV. Overregulation of textile and apparel trade

The history of textile and apparel import regulation has been one of ever increasing protection over a period of almost thirty years. Yet, the extension of the MFA at the end of 1981 marks the beginning of a new and particularly sorry chapter in U.S. textile trade regulation. This chapter has been characterized by the imposition of numerous quotas extending to small, as well as established, suppliers, and a serious disregard for the requirements of the MFA.

The MFA's Protocol of Extension was a carefully crafted and negotiated document which re-emphasized many of the most important principles of the MFA and expressed a strong concern over restrictive actions taken contrary to those principles. The Protocol specifically pointed to the problems created by restraints on exports of new entrants to international textile trade and to small textile suppliers. The members of the MFA agreed that restraints on exports from these countries should normally be avoided. The Protocol also noted the problems which had arisen as a result of actions taken to restrict trade in textiles and apparel and the members agreed that these actions should be taken only where it could be demonstrated on the basis of "relevant specific factual information" that imports were causing or threatening market disruption under the standard of Annex A of the MFA—"serious damage to domestic producers or actual threat." These principles were not new to the MFA. On the contrary they were embodied in the original MFA and reaffirmed in the Protocol.

In signing the Protocal extending the MFA, the United States agreed to these principles. Yet, at the same time, the Administration responded to domestic industry objections to the Protocol by pledging in a letter from James Baker, then Chief of the White House Staff, to Congressman Carol Campbell of South Carolina, "to relate the growth of total imports to the growth of the domestic market." Later, President Reagan restated that pledge, stating his Administration would strive to work toward a closer relationship of textile imports and market growth "consistent with our existing international obligations." Whatever the exact meaning of the artfully ambiguous phrase in the Baker letter, the Administration never argued with the interpretation of the domestic industry that it was a commitment to absolutely limit import growth to an arbitrarily selected 1.5-2 percent per year. However, this vague pledge has been used by the domestic industry since it was made and has led the Administration into a series of increasingly restrictive actions to limit imports irrespective of MFA principles and standards.

Restrictive agreements with Hong Kong, Korea and Taiwan

Shortly after the MFA was extended, the United States set out to negotiate new, highly restrictive agreements with the three largest import suppliers of textile and apparel products to the U.S. market—Hong Kong, Korea and Taiwan. The Protocol extending the MFA noted that in "exceptional cases" where there was a recurrence or exacerbation of market disruption, growth rates lower than the 6 percent minimum guaranteed by the MFA could be agreed to. This narrow exception became the general rule in these negotiations. The United States insisted upon, and extracted, restraints on a wide range of products from these countries with growth limited to between ½ and 1½ percent per year. These agreements also drastically reduced or eliminated flexibilities guaranteed under the MFA: 7 percent swing from one textile category to another; 10 percent carryover and 5 percent carryforward from one year to another. Again, the United States turned the Protocol's narrow provision for exceptional cases into a general rule applicable to all products of these countries, in violation of MFA principle and standards.

The United States was able to obtain agreements with Hong Kong, Korea and Taiwan on these terms because of the disparity in bargaining power between these countries and the United States. The economies of each of these countries was highly dependent on textile exports and thus could ill-afford potentially even more restrictive unilateral U.S. actions.

The Agreements also included a consultation call mechanism allowing the United States to establish quotas on otherwise uncontrolled categories. Through extensive use of this mechanism, the United States controls virtually all textile and apparel trade from these countries: 75 percent of our textile and apparel trade from Taiwan is currently under quota; 95 percent of our trade from Hong Kong; 92 percent of our trade from Korea (testimony of Richard Imus, Chief Textile Negotiator, before House Subcommittee on Commerce, Consumer, and Monetary Affairs, Committee on Government Operations, March 6, 1985).

Negotiations with China

Subsequent to the negotiation of new agreements with Hong Kong, Korea and Taiwan, the United States sought to negotiate a similar restrictive agreement with China, which has been linked by the domestic industry with Hong Kong, Korea and Taiwan as the so-called "Big Four" suppliers. The China negotiations proved more difficult, however, as China viewed the U.S. insistence on lower growth rates and limited flexibilities as a retreat from previous U.S. Statements that China would not be treated as a "major supplier." Negotiations began in July 1982 and continued through the reminder of the year. Despite China's willingness to continue negotiations, when the agreement in effect between the two countries expired in January 1983, the United States unilaterally imposed quotas on 33 categories of textile products rather than temporarily extending the agreement during the pendency of negotiations. This unilatereal action triggered retaliation by China against exports of U.S. agricultural products, costing U.S. farmers over $500 million in wheat sales alone. In comparison, the difference between the U.S. and Chinese positions in their textile negotiations was less than $50 million. An agreement was finally achieved in August 1983 due to the efforts of an infuriated U.S. agricultural community, and despite strong objections by the domestic textile industry which pressed for a continuation of unilateral restrictions.

While not as restrictive as the Hong Hong, Korea and Taiwan agreements, the U.S.-China Agreement also contained provisions limiting flexibilities and allowing less than six percent growth. In addition, the Agreement included a consultation call mechanism which the United States has repeatedly invoked, so that well over 75 percent of China's textile trade is already under quota.

Consultation calls

U.S. efforts to restrict import growth to satisfy domestic industry demands were not limited to actions against Hong Kong, Korea, Taiwan and China. Even prior to the signing of the Protocol extending the MFA, the United States embarked on a program of unilateral action, in 1981 establishing quotas in 18 separate instances on five supplying countries. This program intensified in 1982 with new quotas being established in 38 categories on products from eight supplying countries. As pressures for further restrictions mounted in 1983, the frequency of U.S. actions accelerated, with the United States issuing calls to establish quotas on 113 separate occasions involving products from 20 separate countries. In addition to calls against established suppliers, many of these actions were directed against new entrants and smaller suppliers: Haiti, Malaysia, Romania, Uruguary, Egpyt, and Turkey.

The proliferation of U.S. calls represented a serious turn in U.S. textile policy. Previously, the United States had established quotas principally through negotiation of restraints. Although provisions for calls require consultations after an action is taken, a quota is typically established at the time of the call making the consultations often irrelevant. As such, this new policy moved the United States sharply away from negotiations toward unilateral action.

The creation of a "presumption" of market disruption

The successful resolution of the U.S.-China dispute with the signing of a new bilateral textile agreement in August 1983 bought further pressure on the Administration to take action to restrict textile and apparel trade. The domestic textile industry viewed signing of the Agreement as a defeat despite the fact that growth allowed on categories subject to quota was below the six percent MFA minimum. In September 1983 the domestic industry brought a countervailing duty action against all textile and apparel products from China. While no legal basis existed for the petition, the domestic industry actions raised a real dilemma for the Administration. An affirmative ruling against China risked a serious rupture of bilateral trade relations, with possible repercussions extending to bilateral relations generally. A negative ruling risked further antagonizing the already angered domestic industry. Confronted with a no-win situation, the Administration reached an extraordinary agreement with the domestic industry. The Administration agreed to unspecified measures to further restrict textile and apparel imports in exchange for domestic industry's withdrawal of its petition, and further agreed to initiate a new investigation and issue a preliminary determination within two days should the domestic industry refile the same petition. This unprecedented pledge in effect gave the domestic industry veto power over the Administration's selected course of action to restrict textile and apparel trade.

On December 16, in a White House press release, the Administration announced it had established additional criteria which if met established a "presumption" of market disruption and would serve as the basis for further calls to restrict uncontrolled categories. Under these new criteria a presumption of market disruption would exist with respect to a category or product from a supplying country if the growth of imports in the category or product from that country exceeded 30 percent in a year or the ratio of imports to domestic production in the category or product was 20 percent or more and if imports from the individual supplier country in the category or product was equal to or greater than one percent of U.S. production of the product. These criteria covered a major share of uncontrolled trade.

While the Administration attempted to obscure the problems involved by stating the new criteria would only establish a "presumption" of market disruption which would not result in a quota being imposed if market disruption or threat thereof were not demonstrated, the announcement marked a further turning away from MFA principles and a further tightening of restrictions on textile and apparel imports. Prior to the December 16 announcement, 80 calls had been issued during 1983, representing a sharp increase over the 38 calls made during 1982. However, following the December 16 announcement, in the last two weeks of 1983, 33 more calls were issued. The Administration's program continued into 1984 with 112 calls establishing quotas being issued, 70 in the first six months of 1984 alone.

The impact of this policy also has increasingly affected small suppliers and new entrants, countries receiving special consideration and protection under the MFA. As more and more trade came under quota, U.S. actions were directed toward smaller volumes of trade, even as the drive to control more established suppliers continued. During 1984, quotas were established on Egypt, Turkey, Uruguay, Peru, Spain, Yugoslavia, Barbados, Hungary, and Mauritius.

The U.S. textile program has now reached the point where its actions are directed even against the world's poorest and least developed countries. On January 29 of this year, the United States issued a call to establish quota on cotton jackets from Bangladesh; on February 28, the United States followed its January call with a call on cotton woven shirts from Bangladesh. These actions threaten to suffocate a new industry holding some hope for economic stability in Bangladesh which would enable Bangladesh to wean itself from foreign aid at a time when the country is facing unemployment of 30 percent. ("Bangladesh faces textile quotas," Journal of Commerce, March 6, 1985, page 3B).

Lack of adequate data for issuing calls violates MFA

The proliferation of unilateral U.S. action establishing quota since the extension of the MFA in December 1981 is sharply in conflict with MFA principles. Fundamental to the MFA is the principle that imports will not be restricted unless they result in demonstrable market distruption. This principle has been ignored in U.S. decision making. The most intense period in Government activity to restrict imports through unilateral calls—1983 and the first half of 1984 coincided with a strengthening of the economic performance of the textile and apparel industries as the consumer led recovery from the 1982 recession increased demand for both imported and domestic products.

In addition, U.S. calls failed to meet the specific requirements of Annex A of the MFA for taking such actions. As noted above, Annex A defines market disruption as "serious damage to domestic producers or actual threat thereof." Annex A also requires that market disruption be demonstrated on the basis of factual evidence relating to the economic condition of the competing domestic industry. Nevertheless, these actions were taken without data and information necessary for valid market disruption determinations, as was acknowledged in a 1981 Commerce Department solicitation:

"There is a critical need for such data. At present, there is a lack of sufficient and timely apparel production, sales, consumption, and price data. This information is necessary to identify and substantiate market disruption resulting from imports and to determine and monitor current trends in apparel markets.

"Presently, OTEXA must make determinations of market disruption using current import data and production data that range from 12 to 24 months old. Given this lack of timely production data, OTEXA is forced to use other data as indications of what is happening to current industrial production (e.g., employment data, FRB index of industrial production, Census cuttings data, etc.). The problems with these data are:

"1. They are not accurate;
"2. They do not give sufficient detail to meet OTEXA's needs;
"3. They are not compatible with the textile category;
"4. There is too great a time lag to be of much use;
"5. And, to compound these problems, there exists no sales nor product price data for apparel." (Solicitation SA-RSB-82-0011, December 28, 1981)

"The Government continues to take these actions without adequate current data, and the Administration is only now requesting that Congress enact legislation to correct this problem." ("Reagan seeks law requiring quarterly U.S. production data," Women's Wear Daily, March 7, 1985, p. 12.)

New country of origin regulations

In addition to actions under the MFA directly restricting trade in textiles and apparel, the Administration in recent months has taken a number of actions outside of the MFA which were intended to be, and have been, enormously disruptive to trade. The most significant of these involved the promulgation by the U.S. Customs Service of new country of origin regulations for textiles and textile products.

The new country of origin regulations grew out of Executive Order 12476 of May 9, 1984, which among other things directed the Secretary of the Treasury to issue regulations in accordance with policy guidance of the Committee for the Implementation of Textile Agreements (CITA), clarifying or revising country of origin regulations for textiles and textile products subject to international agreements to avoid circumvention of those agreements. On August 3, 1984, the Customs Service issued interim regulations governing country of origin of textiles and textile products in response to Executive Order 12475. The regulations did not really address problems created by fraudulent practices such as transshipment, re-routing, and false documentation which constitute circumvention as the term is commonly understood and as defined in the MFA. Instead, the regulations changed the definition of "substantial transformation" of products manufactured through multi-country processing to shift the origin of these products from countries where adequate quota was available to countries where adequate quota was not available.

Under traditional country of origin rules, recognized by the courts and the Customs Service for over 80 years, the country of origin of articles manufactured through processing in more than one country was the country in which the article last underwent a substantial transformation creating "a new and different article with a distinct name, character or use." While this test required case-by-case analysis, the courts and the Customs Service have recognized that full assembly of apparel components into finished apparel and processes converting greige cloth into finished fabric constituted substantial transformations conferring origin. The Customs Service regulations changed these rules by establishing per se rules that assembly of components and finishing of fabrics by themselves could never result in substantial transformations. In so doing, the Customs Service severely disrupted longstanding and legitimate business practices involving multi-country processing, including literally hundreds of millions of dollars of sweater production involving panels knit in China and assembled through looping into finished sweaters in Hong Kong. Also disrupted were fabric finishing operations in Europe using Chinese greige cloth.

In addition to establishing new and radically different rules for determining country of origin, the interim regulations required that "country of origin declarations" with detailed cost information accompany all textile entries. In essence, the declaration requirement forced manufacturers and/or exporters to disclose the most sensitive of proprietary business information to their customers, and required that importers certify the accuracy of this information with the possibility of being subjected to civil and criminal penalties should this information prove to be incorrect.

Compounding the difficulties created by the changed rules of origin and declaration cost requirements was the fact that the regulations established a totally unrealistic effective date of September 7, 1984 for their implementation. This allowed importers barely a month to conform to major changes in the requirements for entry of their products.

From the outset, it was apparent that the regulations were intended to harrass the textile import trade and afford the domestic industry protection on top of the protection it already received through the Government's quota activities. However, the Administration had not foreseen the outrage of importers, exporters, and foreign governments to the huge disruption of trade caused by the new rules and the suddenness with which they came. The massive diplomatic and public protest which followed publication of the interim regulations induced the Administration to delay their implementation to reduce the rule's immediate harm and eventually even the Administration recognized that the declaration's cost requirements were unwarranted.

Substantively, however, the Administration refused to change the rules as requested by those affected, despite their obviously protectionist purpose and their inconsistency with established precedent. The final regulations published on March 5 were changed only to accommodate domestic industry complaints that the new rule on assembly created a quota loophole for cut and sewn apparel. For this reason, the final regulations now have one set of rules for assembly of knit to shape components such as the sweater panels knit in China and another rule for assembly of cut components. There is no way logically to draw this distinction, and the rules now in effect are an embarrassingly transparent device aimed at China's production of sweater panels.

The ultimate irony to the new rule is that one way in which Hong Kong manufacturers may accommodate to the changed country of origin requirements will be to produce cut and sewn sweaters in Hong Kong, competing directly with U.S. sweater production which is predominantly cut and sewn.

Change of classification of "basket" articles

The promulgation of new country of origin regulations is only one example of the disruption resulting not just from the substance of Government actions, but also from the Government's failure to provide sufficient notice to allow adequate lead time for compliance. In September of 1984, CITA announced it was changing the textile category classification of thousands of products from miscellaneous "basket" textile categories to categories for specific products, for example, from "other cotton apparel" to "cotton men's and boys' coats." Although the listing of products being moved in this fashion had not been developed, the changes were to be effective for products imported on or after January 1, 1985. This meant that in many instances importers who had ordered goods months before as not-quota basket category items were required to obtain licenses for quota merchandise near the end of the quota year (where licenses are rarely available) or in some instances found that the merchandise in the new category was embargoed. Despite importer complaints, CITA refused to change the effective date of the changeover so that the change would be implemented only on products exported in the 1985 quota year.

"Phased entry"

The most eggregious example of this insensitivity to importers' need for adequate notice and sufficient lead time occurred late last year when the Government announced on December 24 that effective January 1, 1985 in certan cases new limits would be placed on goods previously subject to embargo upon the opening of the quota category at the end of the embargo period. Importers were not notified of the initial groups of categories affected until December 27 and December 28, just days before the new rule was applied to this merchandise. Again, importers' protests that implementation of the new rule be delayed went unheeded.

A review of the administration of the textile program is needed

The history of the past three years shows that the administration of the textile program is in serious need of reform.

Restrictive actions contrary to the MFA have multiplied and actions are now being taken against small suppliers and the poorest of the poor whose trade in no way jeopardizes the domestic industry. In addition, the Government has embarked on a program of action outside the MFA structure changing the rules of importing to harass and disrupt legitimate textile trade. These actions are often taken with little or no notice and without regard to the time necessary to compliance. Importers do not object to legitimate textile regulations taken under MFA principles where a competing domestic industry is truly threatened with serious damage. However, importers strongly object to unnecessary actions and to harassment, and urge the subcommittee to raise this issue with the Administration in keeping with the subcommittee's oversight function.

V. MFA extension

With the MFA scheduled to expire on July 31, 1986, consideration is beginning regarding the future of the MFA. While it is still too early to put forward a detailed proposal we believe that if the MFA is to be extended, it must be liberalized, and there must be a return to original MFA principles and standards. Moreover, it is essential that in the administration of the textile program, the United States adhere to these standards and principles, including adherence to the recommendations of the Textile Surveillance Body (TSB), which have not consistently been followed in the past.

It is also essential that development of U.S. textile policy, including its position on the MFA extension, be undertaken in a manner reflecting the full national interest rather than the interest of any narrow group. This requires the full participation of Government Departments and agencies responsible for trade, economic and foreign policy matters. This also requires full and equal input by all potentially affected parties.

Reduction in maximum allowable 1985 trade from major exporting countries under Textile and Apparel Trade Enforcement Act of 1985 compared to actual 1984 trade

Country	Percent reduction
Brazil	58.15
China	56.66
Hong Kong	12.41
India	4.36
Indonesia	72.26
Japan	16.63
Korea	33.36
Pakistan	23.99
Philippines	[1] −3.30

Country	Percent reduction
Singapore	[1] −14.54
Taiwan	45.30
Thailand	45.76

[1] Maximum allowable growth assuming all 109 textile categories filled to maximum allowed under bill. For those categories shipped by these countries in 1984, trade would be reduced by 9.88 percent in the case of the Philippines and 10.00 percent for Singapore.

Percent of 1984 apparel imports under quota control by textile category

Category and description		Percent
331	Cotton Gloves	97.3
333	Cotton Suit-type Coats, Men's and Boys'	74.9
334	Cotton coats, Other, Men's and Boys'	91.9
335	Cotton Coats, Women, Girls, and Infants	88.2
336	Cotton Dresses	75.1
337	Cotton Playsuits	90.7
338	Cotton Knit Shirts, Men's and Boys'	88.1
339	Cotton Knit Shirts and Blouses, Women, Girls, and Infant	89.9
340	Cotton Shirts, Not Knit, Men's and Boys'	88.8
341	Cotton Blouses, not Knit, Women's Girls, and Infants	87.6
342	Cotton Skirts	67.6
345	Cotton Sweaters	63.2
347	Cotton Trousers, Men's and Boys'	81.1
348	Cotton Trousers, Women's, Girls, and Infants	90.6
350	Cotton Dressing Gowns	81.0
351	Cotton Nightwear	91.4
431	Wool Gloves	19.0
433	Wool Suit-Type Coats, Men's and Boys'	48.4
434	Wool Coats, Other, Men's and Boys'	40.7
435	Wool Coats, Women's Girls, and Infants	63.3
436	Wool Dresses	65.0
438	Wool Knit Shirts and Blouses	91.2
440	Wool Shirts and Blouses, Not Knit	83.5
442	Wool Skirts	47.0
443	Wool Suits, Men's and Boys'	47.8
444	Wool Suits, Women's Girls' and Infants'	77.3
447	Wool Trousers, Men's and Boys'	57.0
448	Wool Trousers, Woman's, Girls' and Infants'	51.7
631	Gloves, Man-Made fiber	98.5
632	Hosiery, Man-Made Fiber	11.4
633	Suit-Type Coats, Men's and Boys', Man-Made Fiber	79.3
634	Coats, Other, Men's and Boy's, Man-Made Fiber	94.4
635	Coats, Women's, Girls' and Infants', Man-Made Fiber	90.3
636	Dresses, Man-Made Fiber	79.7
637	Playsuits, Man-Made Fiber	66.9
638	Knit Shirts, Men's and Boys', Man-Made fiber	96.1
639	Knit Shirts and Blouses, Women's, Girls' and Infants, Man-Made Fiber	97.9
640	Shirts, Not Knit, Men's and Boy's, Man-Made Fiber	94.8
641	Blouses, Not Knit, Women's, Girls', and Infants', Man-Made Fiber	69.4
642	Skirts, Man-Made Fiber	61.1
643	Suits, Men's and Boys', Made-Made fiber	89.1
644	Suits, Women's, Girls', and Infants', Man-Made Fiber	86.5
647	Trousers, Men's and Boys', Man-Made Fiber	85.4
648	Trousers, Women's, Girls', and Infants, Man-Made Fiber	79.6
649	Brassieres, etc., Man-Made Fiber	84.1
650	Dressing Gowns, Man-Made Fiber	39.5

[From the Journal of Commerce, Mar. 6, 1985]

BANGLADESH FACES TEXTILE QUOTAS

(By Francine C. Brevetti)

NEW YORK.—Bangladesh faces U.S. and European import quotas on its textile exports. The country had developed textiles for export recently to wean itself from foreign aid.

The country's private sector launched the manufacture of garments in 1980 with the help of investors from South Korea, Japan, Taiwan and Singapore. They were attracted by the country's cheap labor pool. Its exports of cotton soft goods, mostly men's and boy's wear, entered the U.S. market the following year.

In 1983-84, the Asian nation exported $28 million worth of Bangladeshi garments, and its 1984-85 target is $84 million.

On March 11-13, a delegation from the U.S. Department of Commerce will meet in the country's capital, Dhaka, to negotiate acceptable levels of trade with Bangladeshi trade officials, according to Nash Ahmed, commercial counsel at the country's embassy in Washington. These discussions will focus on exports of men's and boy's jackets and coats.

According to the Commerce Department, the subcontinental country's exports are beginning to disrupt U.S. markets. However, the amounts involved are not great—2.78 percent of the total U.S. supplies of men's and boys' wear, Mr. Ahmed stated.

The Financial Times, London, reported that the European Community Commission is struggling with the issue, too. France and Britain want to impose quotas on cotton shirts, but West Germany opposes the restriction.

One of the poorest countries in the world, Bangladesh has been receiving remittances from expatriates working in Middle Eastern oil fields. But now that oil revenues are declining and the Saudis are turning to automation, these remittances will dry up.

Worse, Bangladeshis returning from the oil fields will exacerbate the country's desperate unemployment problem. Thirty percent of its 100 million population is idle, a problem that the textile industry had alleviated.

"So now it seems like trade is our only hope," Mr. Ahmed said.

Mr. Ahmed said that the West does not understand his country's situation, that it is threatening to suffocate a new industry that holds some hope for economic stability in Bangladesh.

But Commerce's reply was matter of fact, The department has had textile import restraints in effect since the 1960s, Diane Solkoff, international trade specialist, pointed out.

"This is nothing new," she said. Rather, it's something Bangladeshis could have ascertained before they began exporting to this country.

Furthermore, the United States has bilateral trade agreements with 27 other nations, and Bangladesh must fall in line so the United States can treat them all equitably, she explained.

The commercial counselor complained that Bangladesh's exports have been inflated by other Southeast Asian countries that are changing the identification of their export shipments and indicating Bangladesh as the source on export documentation.

If by the end of this month the two sides do not reach an agreement, then the United States will impose a limit of 31,068 dozen of men's coats from Bangladesh, the Commerce specialist said.

Bangladesh is willing to lower its exports of men's and boys' cotton garments and diversify into other categories like lingerie, swimsuits, low-priced suits and ski jackets.

"But we need time to do this," Mr. Ahmed protested.

The country would have to import the technology and find investors to support diversification.

Chairman GIBBONS. Mr. Weiser, proceed.

STATEMENT OF STEVEN S. WEISER, SIEGEL, MANDELL & DAVIDSON, ON BEHALF OF AVON FASHIONS, INC.; MARISA CHRISTINA HOLDINGS, INC.; FOWNES BROTHERS CO., INC.; SIGALLO, LTD.; ELLEN TRACY, INC.; AND U.S. SHOE CORP.

Mr. WEISER. Thank you, Mr. Chairman. My name is Steven Weiser. I am a partner of the law firm of Siegel, Mandell & Davidson. We are attorneys specializing in the practice of international trade and customs law, with a heavy practice in the textile and wearing apparel area. I am here today on behalf of a few of our clients; namely, Avon Fashions, which is a subsidiary of Avon Products; Marisa Christina Holdings, Inc.; Fownes Brothers; Sigallo, Ltd.; Ellen Tracy, Inc.; and the U.S. Shoe Corp.

My statement has been submitted for the record, and I would appreciate it if it was made a part thereof.

I would like to speak extemporaneously.

Chairman GIBBONS. Certainly.

Mr. WEISER. Thank you. The hearings today were very enlightening and there were certain interplays during the hearings, particularly among the subcommittee members and the governmental representatives, which I found particularly interesting, in that I am involved day-to-day, perhaps minute-to-minute, in the practice of law whereby we're affected and our clients are affected by the administrative enforcement of quotas and the tariff.

I would first like to talk about the word "protectionism." It has been a word that has been bandied about quite a bit here. I think we would agree that this industry is the most protected in the United States, and I am sure, as we have heard, there are those who say there are good reasons for it. The question is, of course, what is the cost of protectionism, where do you draw the line?

I would like to advise or inform the committee as to what the average wearing apparel importer must go through to import his goods. We are dealing, let's say, with a medium-size importer who is a manufacturer rather than a retailer, he might have three or four seasons' worth of merchandise, with an average of perhaps 100 or 200 styles per season. So for the year let's call it 500 to 600 styles of wearing apparel. And of course, we're talking about the fashion industry, and each style is different than the next.

He must find the appropriate rate of duty applicable to each style. In order to cost his merchandise correctly. He must find the correct freight rates, whether they be ocean or air, again in order to so cost his goods.

Among the tariff items there are 60 or 70 rates and item provisions alone applicable to wearing apparel and accessories, this does not include yarn, fibers, and fabrics products. And of course, a mistake in your rate of duty can be critical. The rates run from a low of around 5 percent to a high in the upper 30's. And some of them are compounded with weight as well.

Today, even more important than ascertaining the correct rate of duty, is finding out the correct quota category. What may be overlooked is, sure, we have restraint levels, quantitative restraint levels, and when we talk about quotas, that's what we ordinarily mean. But we also have a tremendous system of quota categorization where one item might be categorized in one quota category having a restraint level of X or may be categorized logically, equally logically, in another area having a quota category of Y. If your garments are not visaed under the appropriate quota category—and I use "appropriate" advisedly—your garments will not be permitted entry into the United States.

Who makes that determination as to what is the correct quota category? The answer is, the U.S. Customs Service does. Are there any regulations, are there any rulings by which the Customs Service works? No. It may come as a tremendous shock to most parties not involved in the practice or in importing, but the U.S. Customs Service issues binding rulings as to tariff classification, but for quota category, there is absolutely no procedure by which an importer can plan in advance and obtain the correct quota category for his merchandise.

So he takes his best guess, and he imports the merchandise, and sometimes he crosses his fingers, because very often—and I wish I had a sample in front of me to help enlighten us—but very often it is a very subjective determination. Let me try to visualize a sample. You have a knit pullover made of 100 percent acrylic. And let's say it's a fairly bulky yarn. Is that categorized as a shirt, which in common parlance, if it's ladies, would be category 639, or is it a sweater, which would be a 646 from a particular country, with different quantitative limitations and different visa requirements?

There are no—and I must emphasize this—there are no written criteria that are binding to so advise the U.S. importer. There are just none. They do not exist. There has been really one or two court cases on very particular items as to whether a particular garment came in one category or the other. But the criteria does not exist, and I am afraid one of the reasons they don't exist is that the subjective nature of the field is such that it is a nontariff barrier just to not have them exist and let the importers guess, "Why should we give them the criteria? Why make it easy for them?"

So what I am really saying is that the quota restrictions are far deeper than they appear. They're not just quantitative. There are layers and strata of other types of nontariff barriers within them.

Mr. Frenzel, in questioning the Customs representative today, asked about the country-of-origin regulations which we have heard something about today. And he asked whether they applied to textiles or do they apply across the board. And the Customs representative, I believe it would be accurate to say, that the first part of the regulations apply to all commodities and others apply mainly to textiles. But these are just a codification or promulgation of things going back 50 years.

I can't quite agree. These customs regulations, if you open up your 19 CFR, they're section 12.130—and I don't have them in front of me—but they're entitled "Country of origin for textiles and textile articles." They're not country of origin for all products. Of course, they were promulgated, at least initially—the initial were interim regs—were promulgated pre-election, and I believe they were done under quite a bit of pressure by domestic industry, and they apply just to textile articles.

No effort has been made on the part of the U.S. Customs Service as yet to apply these substantial transformation regulations across the board, and we are waiting for them to so do it because they have threatened to do that and yet they have not.

Mr. Frenzel also questioned Mr. Imus, our chief textile negotiator, on the flannel sheets from Israel, and he said, "Is there domestic production of flannel sheets here in the United States," and I believe the response was, "Yes, there is some." I think Mr. Lenahan advised that he just bought some made-in-United States flannel sheets, although I am advised that there is very, very little production of that commodity here.

This points up a very basic problem when you pass protectionist legislation or when you enforce protectionist regulations. Are you protecting the industry? Are you protecting the commodity? For instance, the full-fashioned-knit-sweater industry in the United States—and I am advised of this; I am not an expert, I have perhaps absorbed some of the expertise of others—but over the years I have been told by importers and domestic parties alike, there is no full-fashioned-sweater industry. A full-fashioned sweater, by the way, is where you take your knit component parts and join them in a fairly intricate looping operation for completion rather than take knit fabric, cut the fabric into components, and simply join the components. Here, you knit to shape.

We are protecting full-fashioned sweaters, which relatively or virtually don't exist domestically, the same way we are protecting our cut-and-sewn-domestic sweaters. There are cut-and-sewn-domestic sweaters, but there is not a significant amount of industry that is relegated to full fashion. Whom are we protecting?

For Hong Kong, the sale of export quotas was also a subject under discussion. And again the strata of protectionism is evident. You might be interested to know that under many, many circumstances as a question of customs appraisement law, not only is an importer paying for the quota charges, but he is probably most often paying the duty on the quota charges.

In other words, let's say you have a garment with a $5-per-garment-quota charge. The Customs Service states if the vendor went out and purchased the quota and takes that quota and then sells the garment inclusive of the cost of the quota to the American importer, that quota charge is dutiable. The only way the quota charge is not dutiable is if the American importer goes out in the Hong Kong market, purchases the quota, and can prove the transfer and invoicing of quota for a set fee.

I mean it's like slugging a man when he's down. Not only is he restricted by the quota itself, the quantitative limits, but he's paying duty on the same quota, which further exacerbates the situation in terms of the final cost of the goods.

During the break, when you gentlemen went to the Chamber, I assume to vote, I was looking at those four garments over there that the chairman was kind of puzzled as to the relative costs, et cetera, and I gave them a very critical look. And again I refrain from stating that I am an expert in any technological way, but I have come across various differences in construction and content over the years, and I know my marking and labeling when I see it. I try to be an educated consumer as well.

When I took a look at the shirts, the first one was made in the United States, and the second one was made in Hong Kong, and then the third one said "Assembled in Colombia." "Assembled in" is typical of an 807 operation. It would not have said "Assembled in" if it were a pure Colombian manufacture. So they represented a shirt as being Colombian made. In fact, that shirt, I can assure you, was made out of American piece goods, cut in the United States, sent to Colombia for, sheerly and solely, assembly.

And Guyana, the same held true as the Colombian shirt. It said "Assembled in Guyana." It did not say "Made in Guyana." That also is an 807 operation.

And so as to two of those shirts, there was certainly more substantial impact upon American labor than foreign, and American materials.

Again, looking at the shirts—and that's why it's so important to be careful to compare apples and apples. The Hong Kong shirt was of different fiber content than the U.S. shirt, the Guyanan shirt, and the Colombian shirt. The Hong Kong shirt was 70 percent cotton, 30 percent polyester, while the other shirts were 60-40, 60 percent cotton and 40 percent polyester. Therefore, different blend, different treatment, perhaps different spinning, different costs involved, and they represented the shirts as identical.

Now, no imported shirt, I think I can definitively and clearly state to you, no imported shirt and no domestic shirt can possibly be identical. Different dyestuffs are used, different machinery is used, and there is no such thing as an identical shirt.

Myself, I like the Hong Kong shirt, and I would have purchased that. But maybe that, you know, is a personal bias.

I would like now to turn briefly to the bill, which was the primary reason I was here. The bill, I find, is extremely ill-advised.

Chairman GIBBONS. Extremely what? I didn't hear you.

Mr. WEISER. Ill-advised. With all due respect, I must say that I know Mr. Jenkins introduced it, and I am sure he——

Mr. JENKINS. I did not expect you to be for it, Mr. Weiser. [Laughter.]

Mr. WEISER. Well, I just wanted to confirm your expectation.

The bill defines—the first thing that struck me in reading the bill, not only as a lawyer but as a layman, it defines major exporting country as those countries which are responsible for 1.25 percent of imports into the United States; in other words, a country that was, if you had 1 million dozens or 1 million pounds of merchandise, a country—with some quick calculations—had 10,250 pounds would be a major exporting country.

I look at a 1.25 percent figure, and I say to myself, there is nothing major about 1.25 percent. In law, if anything, 1.25 percent is more often de minimis than major. And when you take that 1.25 percent and you take the countries that are affected by it—and let me read off the countries, the 12 countries that were currently the MEC's, or major exporting countries, under the bill. You have Taiwan, South Korea, Hong Kong, Japan, Pakistan, India, Philippines, Brazil, Thailand, China, Singapore, and Indonesia, with Sri Lanka coming just short of the 1.25 percent, I believe.

These countries are highly varied in stages of industrialization as Japan is one of those countries. Of course, no one would claim that Japan is a Third World or nondeveloped country. And highly varied as to politics and highly varied as to a host of different things. By virtue of this bill, not only would you restrict growth tremendously for these 12 countries, but you would tie any administration, any President, to particular quota levels forever, and ever, or until the next time a bill is passed.

Why should our administration or any administration treat a country like Thailand, a country which could be swept up in a Communist surge in Southeast Asia, the same as Japan? Why should China, which represents close to one-fifth of the world's population, be treated the same as Singapore, which might be the size of Delaware?

I don't see the sense of that kind of treatment of these nations. Why shouldn't our Government have the flexibility to treat these nations as we do now in a bilateral fashion? It just makes sense to me to give the Executive that kind of flexibility to treat these nations, for a host of reasons, in a bilateral manner. Otherwise, you are chaining our negotiators. And furthermore, Mr. Imus' successor would probably be out of a job, wouldn't he, because he would have nothing to negotiate.

The globalization as well would certainly, as evidenced by this list, discriminate against Third World countries that are underdeveloped, that are entitled to the generalized system of preferences but for the fact that textiles is a very sensitive area. Again, many of these countries are in hotbed areas. Brazil is one of the largest debtor nations in the world. What sense is there to treat it in that fashion? What sense is there to take India and China together, which someday, hopefully in the nearer than the later or the further future, constitute a marketplace for us. Together they approach 50 percent of the world's population—I think the figure is close to 1.8 billion people. That's where American ingenuity can thrive and strive. That's a market, a built-in market.

If we take such action against them, the chances of retaliation, quick retaliation in the case of China against our Farm Belt, an industry which is beleaguered as it is, would not only be likely, I think it would be more inevitable than anything else.

Yes, the bill also—and this perhaps Mr. Jenkins can elucidate a little bit—in the policy of the bill section 2, subsection (i), it says: "The policy of this Act is to implement the objectives of the Multifiber Arrangement by requiring the effective enforcement of import levels of textiles and textile products contemplated by the Multifiber Arrangement."

This bill doesn't only serve to restrict fibers that were included in the MFA, but this bill also restricts linen, ramie, and silk fibers that were never contemplated by the MFA. So the bill, to me, is a contradiction in terms from the outset.

The last time I looked, the U.S. silk industry wasn't too thriving. I don't think we currently have enough silkworms in the United States to make a handkerchief.

So I am rather nonplussed at the coverage of the bill ab initio. The abrogation of the MFA and the bilaterals by the bill are evident. Immediately upon the enactment of a bill like this, we have abrogated our trade commitments. I don't think the United States is a country that is known for the abrogation of its commitments. Why should we abrogate our trade commitments? I don't see a good reason why.

Finally, import licensing, the import licensing program, is completely ambiguous. That is section 6 of the bill. It doesn't set any guidelines as to how imports should be licensed. It is simply giving some administrative agency—in this case, the Department of Commerce—carte blanche to administer a program that is not defined at all.

In sum, I would simply like to say that I think responsible Americans are all very concerned with domestic labor, with our textile industry being injured, hoping that workers can be retrained in some technological way, as that New York Times editorial pointed out on Monday.

And if I might have another 30 seconds, I was in Peru over 2 years ago and visited the slums of Lima. I happened to be on a countervailing duty investigation on cotton yarn, and not having been as well traveled as you gentlemen, I was very struck by the conditions of those slums. I have been in cities before. I am a New York boy, and our slums are beautiful compared to those. I couldn't even brag that our slums are worse than those. I was taken aback by them, frankly.

I continued on to the northern section of Peru, where they manufacture cotton yarn, and I was advised that if the United States assessed the countervailing duty we were planning to assess, 800 factory workers would be put out of work in this little town called Piura in Peru near the Ecuadoran border in the desert. Looking at the faces of the children and looking at the faces of the laborers, I must tell you that I was no less affected by looking at those faces than looking at the faces of Americans, and I think that we should keep that in mind.

Thank you for the time. I appreciate the opportunity to submit my comments.

[The prepared statement follows:]

STATEMENT OF STEVEN S. WEISER, ESQ., SIEGEL, MANDELL & DAVIDSON, P.C., REPRESENTING AVON FASHIONS, INC. (SUBSIDIARY OF AVON PRODUCTS, INC.) MARISA CHRISTINA HOLDINGS, INC., FOWNES BROS. CO., INC., SIGALLO, LTD., ELLEN TRACY, INC., AND U.S. SHOE CORP.

Mr. Chairman and members of the Subcommittee on Trade, my name is Steven S. Weiser fo the law firm of Siegel, Mandell & Davidson, P.C. I am here today on behalf of a number of our clients: Avon Fashions, Inc. (Subsidiary of Avon Products, Inc.), Marisa Christina Holdings, Inc., Fownes Brothers Co., Inc., Sigallo, Ltd., Ellen Tracy, Inc. and U.S. Shoe Corporation. We appreciate this opportunity to present our views in opposition to H.R. 1562, also known as "The Textile and Apparel Trade Enforcement Act of 1985".

We are constrained to state that we regard this proposed piece of legislation to be an extremely ill-advised, however tempting, foray into protectionism vis-a-vis textile imports. The primary aims of the proposed bill, H.R. 1562, are to "globalize textile quotas and to establish an import licensing system. As we will discuss, both of these objectives are, for multi-faceted reasons, potentially injurious to the United States in economic and political spheres and, in the final analysis, inimical to our national interest.

The first area which we will focus on is the so-called "globalization" of textile import quotas which Section 5 of H.R. 1562 seeks to effect. Summarily, the globalization of textile quotas mandates the complete disintegration of our system of bilateral textile agreements, which system has been extent for approximately the past 15 years. Replacing it would be a creature of statute, based not on the consensus of the United States and its trading partners, but rather solely upon the unilateral action of our government. Irrespective of considerations which would dictate otherwise, individual nations would be treated indiscriminately (with certain exceptions for the EEC, Canada and the Caribbean region) based upon a quantitative comparison of their total imports into the United States as compared with the world-wide figure.

Thus, countries whose exports to the United States equal or exceed 1.25 percent of total United States textile/apparel imports would be termed "major exporting countries" while countries whose exports to the United States represent less than 1.25 percent thereof would be deemed "exporting countries". Overall, quota levels in 1985 would be sharply reduced for "major exporting countries" (estimates range between 25 to 45 percent) and growth would be limited to one percent per annum in every quota category irrespective of the "import sensitivity" of a particular product.

It is not debatable that this bill would act as a unilateral abrogation of the Arrangement Regarding International Trade in Textiles, commonly known as the Multi-Fiber Arrangement ("MFA") as well as all United States bilateral textile agreements. The United States currently has over thirty bilateral agreements establishing quantitative restrictions on imports of textiles and textile products. These agreements were generally entered into under the framework provided by the MFA which was, in turn, negotiated under the auspices of the General Agreement on Tariffs and Trade (GATT). Article 3, Section 1 of the MFA provides that no new restrictions on trade in textile products shall be introduced by participating countries nor should existing restrictions be intensified unless the same were justified under the provisions of the GATT or the MFA. The restrictions in H.R. 1562 drastically reduce imports and clearly depart from the remedial procedures available under Articles 3 and 8 of the MFA which allow signatory countries to enforce their rights under the MFA and avoid circumvention thereof.

Congress has heretofore seen fit to delegate its Constitutional power to the President to negotiate and implement trade agreements, not only in the textiles area but for all other product sectors as well. This delegation has led to the development of goodwill between the United States and its trading partners and, most importantly, to a high degree of reliability that the United States will honor its international trade commitments. The proposed legislation, if enacted, will violate our international obligations and severely undermine the integrity of the Executive branch to negotiate and maintain trade agreements. While we do not challenge the power of Congress to abrogate such Executive agreements, we seriously question the wisdom in so doing, particularly in the present case. What certainty and reliability can there be in international relations if succeeding administrations (or Congresses) permit the negation of agreements reached among foreign countries and prior administrations? Congressional abrogation of all of our textile agreements runs the grave risk of initiating a 1930's-style trade war. Widespread retaliation by our trading partners against United States goods is the logical outcome of this legislation with agricultural exports being a major target.

Another objection to globalization is the de minimus criterion used to define a "major exporting country". As previously discussed, with certain exceptions, a major exporting country is defined as a country whose exports to the United States equal or exceed 1.25 percent of the total U.S. textile/apparel imports. the designation of a 1.25 percent factor to determine a major exporting country is well below what is reasonable as many third world nations, relatively tiny in size, most of which are underdeveloped and striving to have stable economies, will be discriminated against under H.R. 1562 (e.g., Thailand, Singapore, the Philippines and Pakistan).

One of the most objectionalbe aspects of this legislation involves the application of quota "rollbacks", i.e., decreases in previously negotiated quota levels for particular quota categories. These rollbacks would inflict severe harm to these same third world countries which nations can ill afford reductions in their textile exports. Of particular concern is the adverse effect upon the People's Republic of China as our computations reveal that rollbacks against China would be among the most drastic.

Our relationship with China is viewed by many learned observers to be our most vital in the third world. China represents a vast potential reservoir for United States exports. The economic, political, and strategic benefits which the United States can reap through access to the Chinese marketplace are enormous. However, H.R. 1562 assists to block this access by placing an insurmountable obstacle in the paths of United States businessmen seeking to nurture trading relationships. Over five years ago we opened the "trade door" to the People's Republic of China by treating her as a "most-favored nation" under our tariff laws. H.R. 1562 will close rather than open export opportunities for U.S. manufacturers and farmers and worsen the U.S.-China relationship in the process.

When one ponders that China and India (the latter would also be considered a "major exporting country" under the bill) hold roughly one-half of the world population within their borders and together represent a relatively untapped marketplace, one may shudder at this attempt to severely restrict those countries' most important exports, textiles and textile products. Does our government really believe that these and other countries will idly stand by in the face of the abrogation of our freely negotiated agreements?

Consequently, this bill represents not only poor trade policy but illogical foreign policy that strikes at areas of the world in which the United States has a vital interest to assist in fashioning economic stability. Trade is our most effective peaceful tool against Soviet incursions and aspirations. Our trade policy should reflect our national interest and help to strengthen and not weaken our position in the turbulent third world. A nurturing relationship between the United States and the third world demands a closer economic nexus-H.R. 1562 is inconsistent with this objective.

Another major area of concern involves the inclusion of non-MFA fibers (i.e., silk, linen, ramie) within the globalization scheme contemplated by H.R. 1562. Products of these fibers are beyond the ambit of any of our current bilateral agreements. To the best of our knowledge, these fibers are not domestically produced in significant commercial quantities. We are not familiar with any large-scale breeding farms in the United States where silk worms are reproduced for silk production nor do we believe that linen and ramie are meaningful domestic crops. Therefore, we are somewhat confused as to exactly which United States industry requires protection from foreign textiles made of these fibers.

Moreover, these relatively very expensive non-MFA fibers possess qualities which are not comparable to cotton, wool, or man-made fibers. Silk is a very fine, lustrous and resilient fiber which is esthetically enhancing. Linen and ramie are also very fine, long staple, smooth and glossy fibers noted for their resiliency. The characteristics embodied in these fibers are very distinct from any fibers produced domestically and, therefore, imports of non-MFA textile products pose no threat to U.S. industries involved in the manufacturing of non-MFA products.

Furthermore, it is important to note that under Article 12, Section 1 of the MFA (and under all of the bilateral textile agreements negotiated thereunder) the United States has agreed to quantitative restrictions with respect to only the following:

"* * * tops, yarns, piece goods, made-up articles, garments and other textile manufactured products (being products which derive their chief characteristics from their textile components) of cotton, wool, man-made fibers, or blends thereof, in which any or all of those fibers in combination represent either the chief value of the fibers of 50 percent or more by weight (or 17 percent or more by weight of wool) of the product."

Thus, H.R. 1562 would again be in direct contravention of the MFA and the bilaterals thereby breaching the terms of both. In effect, H.R. 1562 violates the MFA and bilateral textile agreements not only through globalization of quotas but also by unilaterally increasing product coverage without the consent of other signatories.

Moreover, there are several technical problems in the bill which make it impossible to effectuate when applied to non-MFA fibers. Because there are not textile agreements covering these fibers and, consequently, no data going back to 1980, the formulas for computing textile imports from "major exporting countries" are useless. The unreasonableness of H.R. 1562 is further seen by applying its "import sensitive" criteria to these fibers. Pursuant to Section 4 of the bill, an "import sensitive category" is a category in which the imports are 40% or more of domestic production for the preceding year and, therefore, mandatorily subject to a 1% annual growth rate. All non-MFA merchandise will be "import sensitive" by definition as domestic production is virtually nil. Therefore, an absurd situation would result in that non-MFA products would be categorized as "import sensitive" because of the lack of domestic production rather than the presence of same.

We believe that this is a basic flaw in the bill which is applicable to not only non-MFA products but also to products which, for whatever reason, are not substantially produced domestically.

The term "wool products" as defined in H.R. 1562 represents yet another problem area. The definition encompasses those articles containing over 17 percent by weight of wool thereby representing a significant departure from current law. Thus, under the Tariff Schedules of the United States (TSUS), an article 80% acrylic and 20% wool would currently be classified for tariff and quota purposes as an article of man-made fibers whereas under H.R. 1562 this article would be subject to wool quota limited to a 1 percent annual growth rate. This anomalous result would also be obtained under the Harmonized System which is proposed to go into effect January 1, 1987.

The second primary focus of this bill is the initiation and implementation of an import licensing system in Section 6. The proposal provides no guidelines or parameters for the Department of Commerce to follow. Instead H.R. 1562 delegates unlimited authority to the Secretary of Commerce to promulgate regulations without any clue as to what shape the system is to have. Consequently, a significant potential for an unrestrained non-tariff barrier exists in view of this unrestricted delegation of power. Without a clear statement of Congressional purpose and direction, it is submitted that this measure is dangerously vague and ambiguous.

As a side note to the import licensing system, we surmise that the legislative staffs of the proponents for H.R 1562 must have had broad smiles on their faces in arranging for the economic support of this non-tariff barrier to be borne by those whom it was implemented against. Under the bill, importers will bear the cost of this import licensing scheme thereby paying the fare for the heavy cost of protection of domestic industry.

The cost of protecting our domestic textile industry has now reached proportions which are economically injurious to not only American importers but also to the American consumer. In a 1984 Federal Trade Commission study entitled "Import

Quotas on Textiles: The Welfare Effects of United States Restrictions on Hong Kong", it was concluded that the cost to the American economy of maintaining quotas on only thirteen wearing apparel quota categories from Hong Kong for 1980 equalled $308 million. The study went on to state that, as an employment factor, some 8,891 jobs in the textile industry were created by maintaining these quotas. Thus, the cost of these quotas could be computed as roughly $34,500 per worker annually. If we can interpolate by including all product categories from all countries, the total drain on the American economy and, hence, the consumer, is staggering. In effect, we are subsidizing employment at a rate which is many times the earnings of the textile worker—and we are doing this year after year. H.R. 1562 can only serve to exacerbate this situtation further.

In summary, we submit that the proposed legislation is a protectionist bill whereby the goals of free and fair trade are thwarted. Textile importers already face a barrage of tariff and non-tariff barriers in the form of relativley high duty rates and burdensome import quota regulations initiated to protect the domestic textile industry. Because this bill is clearly inconsistent with our international obligations, is inflationary, burdens rather than promotes our own exports (as it virtually guarantees to trigger a barrage of retaliatory measures against U.S. imports), we voice our strong opposition to it.

We trust that this Subcommittee will carefully address the information before it and conclude that it is not in the national itnerest to impose the extreme measures that H.R. 1562 attempts to exert on the American public and our trading partners.

Mr. Chairman, I wish to thank you and the members very much for the opportunity to state our position and I welcome any questions you may have.

Chairman Gibbons. Thank you, sir.

Now, Doreen Brown, for the Consumers for World Trade.

STATEMENT OF DOREEN L. BROWN, PRESIDENT, CONSUMERS FOR WORLD TRADE

Ms. Brown. Thank you, Mr. Chairman. I too am going to give you a very abbreviated version of my statement, and present the full statement for the record, not only for your sake but in an attempt to make a train. Having already missed my 5 o'clock reservation, I would like to try to get to New York in time for a speaking commitment.

Chairman Gibbons. We are sorry about that, Ms. Brown. I wish I had known that.

Ms. Brown. Those things can't be helped. I am the president of Consumers for World Trade, which concerns itself with the interests of American consumers in international trade policy, both exports and imports. And one of our primary goals is to bring to the attention of the American public the high price that they are paying for the protection of specific industries and specific products, in the form of hidden taxes and in the reduction of the availability of lower priced goods in the marketplace.

The U.S. textile and apparel trade policy is a classic example of the unwarranted and unjustified economic burden being borne by consumers. Our concerns about textile and apparel trade policy started many years ago with the multifiber arrangement. A study published in 1983 estimates that the restrictions caused by the MFA have cost consumers about $18.4 billion a year. Of that, $15 billion is attributable to tariffs and $1.4 billion to quotas.

These figures are frightening enough, but it is safe to say that these amounts based on 1980 and 1982 data have and will continue to increase with the rash of bilateral agreements which have taken place since then and with the recent adoption of more stringent controls on textiles and apparel trade.

Restraints affect consumers not only in price but also in choice and availability. Because of the quantitative restrictions—and this scenario is well known—the manufacturers abroad keep building to a higher product, they trade up or quota up, and now you have sharp competition to American apparel in the exact categories where they were highly competitive many years ago.

This also causes the virtual elimination of the low-end goods, the cheaper goods, the ones that attracted many American consumers to buy the import in the first place. They become scarce and eventually are totally eliminated from the marketplace.

Therefore, that it is unavoidably the lower income, the fixed-income, the one who is shopping price, the one who can afford it least, who bears the heaviest burden of trade-restrictive actions. These actions are in that way the equivalent of regressive taxes. And that is a practice which America has long condemned.

Our organization has been deeply troubled by the change in customs regulations that we have been talking about today relating to the country of origin provision for textile imports, which charges a garment to the quota of the country where the parts originated except in the case of a substantial transformation. In many cases, the original country may have been assigned a much smaller quota than the country responsible for finishing the operations, and the change in procedure therefore is acting as an additional quota on already restricted apparel imports.

Therefore, consumers will have less merchandise available to them and at an increase in price of an estimated 20 percent.

Legislation was introduced a few weeks ago—called the Textile and Apparel Trade Enforcement Act of 1985. Now, this proposed legislation substantially tightens MFA provisions, discriminates against the exporting countries, extends the quotas to textile products not even covered under the MFA and not produced in significant quantities in the United States, such as linen, silk, and ramie and imposes an import licensing scheme.

By differentiating in the growth allowance to exporting countries, the legislation would cause an immediate reduction of imports, since the major suppliers represent 85 to 90 percent of textile trade. It has been estimated that total textile trade in the United States would be reduced by 20 to 30 percent. Such action is bound to result in more highly inflated prices than before, and even less availability of cheaper goods.

If this legislation were enacted, the United States would be taking, we believe, a further step away from the open multilateral system which, allegedly, we are all seeking.

Mr. Jenkins should be aware that this bill is totally unacceptable to American consumers, who have been subsidizing protected American industries to the tune of $58.5 billion a year for far too long. The MFA was instituted as a temporary arrangement 14 long years ago, and as agreed to in the 1981 extension, should be phased out as rapidly as possible.

CWT will continue to stress the need for radical change in U.S. textiles and apparel trade policy for as long as necessary, and will continue to call for the liberalizing of bilateral agreements and the elimination of the MFA. American consumers must no longer be forced to pay for an open-ended program of protection for the domestic manufacturers, a program which by its very nature has failed to provide the challenge necessary for the industry to adjust to and confront foreign competition and market-oriented world trade. Thank you.

[The prepared statement follows:]

Statement of Doreen L. Brown, President, Consumers for World Trade

SUMMARY

1. U.S. textile and apparel trade policy is a classic example of the unwarranted and unjustified economic burden borne by consumers when trade-restrictive policies are instituted.

2. According to a 1983 study, the Multifiber Arrangement instituted in 1973, has cost consumers 18.4 billion dollars a year (1980 dollars)—$14.955 billion due to tariffs and $3.416 billion due to quotas. It is safe to say that these figures have and will continue to increase with the rash of bilateral agreements and the adoption of more stringent trade controls which have taken place since then.

3. Restraints affect consumers not only in price but also in choice and availability. Cheaper goods become scarce and are eventually eliminated. Lower and fixed-income individuals bear the heaviest burden.

4. Retaliation is an additional concern. China did in 1983. Hong Kong and the Third World are not in a position to do so. But eventually this could lead to counter-retaliatory actions and consumers will feel the effect of an escalated trade war.

5. Our organization has been deeply troubled by the change in Customs regulations relating to the "country of origin" provision for textile imports, which charges a garment to the quota of the country where the parts originated. In many cases, the original country may have been assigned a much smaller quota than the country responsible for the finishing operations. The change in procedure, therefore, acts as an additional quota on already restricted apparel imports. The regulation will be inflationary, violates the MFA and the GATT, and could bring on retaliation.

6. A few weeks ago, a number of legislators representing a coalition of domestic producers and their unions, introduced the Textile and Apparel Trade Act of 1985 which tightens MFA provisions, extends quotas to textile products not covered under the MFA and imposes an import licensing scheme.

The legislation would cause an immediate reduction of imports since the major suppliers who represent 85 to 90 percent of textile trade would be allowed a 1 percent annual growth only. Such action is bound to result in more highly inflated prices than before and even less availability of cheaper goods. It is totally unacceptable to American consumers who have been paying 58.5 billion dollars a year to protect certain American industries.

7. CWT will continue to call for the liberalizing of bilateral agreements and the elimination of the MFA. The open ended program of protection for domestic textile and apparel manufacturers has failed to provide the challenge necessary for the industry to adjust to and confront foreign competition and market-oriented world trade.

STATEMENT

My name is Doreen Brown. I am the President of Consumers for World Trade (CWT), which concerns itself with the interests of American consumers in international trade policy, both exports and imports. One of our primary goals is to bring to the attention of the American public the high price they are paying for the protection of specific industries and products in the form of hidden taxes and the reduction of the availability of lower-priced goods in the marketplace.

U.S. textile and apparel trade policy is a classic example of the unwarranted and unjustified economic burden being borne by consumers. Our concerns about textile and apparel trade policies started many years ago with the original Multifiber Arrangement (MFA). Our organization (CWT) did not exist in its present form in 1973, but we came about a few years later, in time to look back and see what damage had been done since the MFA was instituted.

In 1979, we commissioned a study from David Hartman, a Harvard professor of economics, in which he quoted the Council on Wage and Price Stability as reporting in 1978 that protection due to the MFA had cost consumers $2.7 billion a year, because of tariffs which then averaged 29.3 percent, and $369 million a year due to quotas. A much more recent study, published in 1983 by Michael Munger of the Center for the Study of American Business at Washington University in St. Louis estimates that the restrictions cost consumers about $18.4 billion a year (in 1980 dollars)—$3.160 billion for textiles and $11.795 billion for apparel due to tariffs, and $3.416 billion for apparel and textiles due to quotas.

These figures are frightening enough, but it is safe to say that these amounts, based on 1980 and 1982 data, have and will continue to increase with the rash of bilateral agreements which have taken place since then and with the recent adoption of more stringent controls on textiles and apparel trade. For example, in mid-January 1983, when the U.S. set quotas on many categories from China, retailers predicted that the price of imported clothing would go up 20 percent or more over a period of 12 months. This estimate was exceeded in less than 6 months. It is now reported that imported apparel went up 25 to 35 percent in 1984.

As I mentioned earlier, restraints affect consumers not only in price but also in choice and availability. The President of the American Retail Federation, William Kay Daines, explained it this way for a CWT Newsletter interview:

"The MFA has had a very interesting effect in a number of ways upon consumer goods. Years ago when the MFA first came into being, you did not have, from the Far East, competition in the highly tailored suits, blouses and other apparel that has now developed as a result of the MFA. Because of the quantitative restrictions the manufacturers abroad kept building to a higher product, trading up, and now you have sharp competition to American apparel in the exact categories where they were highly competitive many years ago. That type of competition does eliminate lower-end goods; however, if the MFA were liberalized or ended, those lower end goods would return very rapidly."

Kay Daines hit on a very important point in this statement: the fact that the cheaper goods, the ones that attract many American consumers to buy the import in the first place, become scarce and are eventually eliminated. So that it is, unavoidably, the lower income, the fixed income individual the one who is shopping price, the one who can least afford it who bears the heaviest burden. Import restrictions are thus the equivalent of regressive taxes—a system which America has long condemned.

I have been discussing the price and availability effects of trade restrictive policies, but there is one other factor to be considered. What of retaliation? China did, of course, in 1983 against U.S. exports of soybeans, cotton and chemical fibers. We don't believe any trade expert was surprised by this action—they were more surprised perhaps that other major supplying countries had not hitherto done so. Hong Kong, of course, being a free market, has a problem, and the Third World countries, which we claim to help on one hand and hit with export quotas on the other, are not in a position to do so. But how long will this keep up? How long before the agricultural community, pitted against the textile sector, pressures trade policy formulators into counter-retaliatory actions? And how long before the consumer feels the effects of an escalated trade war?

Recently, our organization has been deeply troubled by the change in Customs regulations relating to the "country of origin" provision for textile imports which charges a garment to the quota of the country where the parts originated. The size of these quotas is determined by the Multifiber Arrangement and by bilateral negotiations between the U.S. and its textile trading partners. If, for example, Hong Kong manufactured the parts of a sweater, but the sweater was sewn together and collar, cuffs, buttonholes, and pockets added in China, the garment would be charged to Hong Kong's quota. In many cases, the original country may have been assigned a much smaller quota than the country responsible for the finishing operations. The change in procedure, therefore, acts as an additional quota on already restricted apparel imports.

Consumers will have less merchandise available to them at an increased price—an estimated 20 percent hike; retailers feared serious disruption of trade for spring 1985 and in the future as well as higher costs. Importers, particularly resent the lack of due process as little if any opportunity was given to review or comment on the changes before their going into effect, Farm groups anticipate eventual retaliation by the textile exporting countries, especially China; our trading partners contend that the changes violate the Multifiber Arrangement and the General Agreement on Tariffs and Trade (GATT). The GATT, itself, has called the new restrictions discriminatory.

As if to add insult to injury, a few weeks ago, a number of legislators, led by Senator Strom Thurmond representing associations of domestic producers and their unions, introduced the Textile and Apparel Trade Enforcement Act of 1985. The proposed legislation substantially tightens MFA provisions, discriminates among the exporting countries, extends quotas to textile products not even covered under the

MFA nor produced in significant quantities in the U.S. such as linen, silk and ramie and imposes an import licensing scheme.

By differentiating in the growth allowances to exporting countries; 1 percent for a major exporting country (even through that country may only have one-quarter of one percent of the U.S. market) and 6 percent for the smaller exporters, the legislation would cause an immediate reduction of imports.

Since the major suppliers represent 85 to 90 percent of textile trade, it has been estimated that total textile trade in the United States will be reduced from 20 to 30 percent. Such action is bound to result in more highly inflated prices than before and even less availability of cheaper goods.

Certain retaliation—justified retaliation since the bill which exempts Canada, Mexico and the EC is in violation of the GATT and the Most-Favored-Nation principle—will undoubedly direct itself to out agricultural sector. If this legalization were enacted the U.S. would be taking a further step away from an open multilateral system—the goal which we are allallegedly seeking.

This bill is totally unacceptable to American consumers who have been subsidizing protected American industries to the tune of 58.5 billion dollars a year for far too long. The MFA was instituted as a temporary arrangement 14 years ago and as agreed to in the 1981 extension, should be phased our as rapidly as possible.

CWT will continue to stress the need for a radical change in U.S. textiles and apparel trade policy for as long as necessary and will continue to call for the liberalizing of bilateral agreements and the elimination of the MFA. American consumers must no longer be forced to pay for an open-ended program of protection for the domestic manufacturers; a program which, by its very nature, has failed to provide the challenge necessary for the industry to adjust to and confront foreign competition and market-oriented world trade.

Chairman GIBBONS. Thank you.

You all have had so many nice things to say about Mr. Jenkins' bill, I thought I would let him be the first one to examine the panel. [Laughter.]

Mr. JENKINS. Thank you, Mr. Chairman.

I appreciate your coming before the subcommittee and for your unanimous concern about my legislation.

Let me start off with you, Mr. Abraham. Your company provides purchasing for a variety of retailers, purchasing services?

Mr. ABRAHAM. We provide a facilitation, if you will. We don't take title to any merchandise. We identify sources of merchandise worldwide both in the United States as well as around the world for the stores. We do product development work, design work, if you will, and we along with store committees, visit the various world markets in order for them to place goods offshore.

Mr. JENKINS. You locate goods offshore and tell your various store clients where those materials may be and at what price they can purchase them and what quality they may be and that type of thing.

Mr. ABRAHAM. That type of thing. But I would also include in that that we do the same thing for the United States. We evaluate the domestic market as well as the overseas market.

Mr. JENKINS. How do you qualify as a nonprofit corporation?

Mr. ABRAHAM. We are owned by the shareholder stores. Our budgets are approved by—let me back up if I may for a moment.

Mr. JENKINS. You are a nontaxpaying, nonprofit entity?

Mr. ABRAHAM. That's correct. We are solely owned by the shareholders such as the Federated Department Store Group, Dayton-Hudson Group, and so forth. Each of the stores have two directors that are on the ANC board, and there is an executive committee. I report to the head of that smaller executive committee.

Mr. JENKINS. You are providing a service. I am just curious.

Mr. **ABRAHAM**. Sure.

Mr. **JENKINS**. As an agent more or less to provide imported goods to department stores that are your clients, providing a service for a fee.

Mr. **ABRAHAM**. The fee is based on an approved upon budget.

Mr. **JENKINS**. How do you get around the income tax?

Mr. **ABRAHAM**. In other words, whatever the costs are, it's a pass-through charge to each of the stores.

Mr. **JENKINS**. Are you a 501(C)(3) corporation?

Mr. **ABRAHAM**. I am sorry, sir?

Mr. **JENKINS**. Do you know what section of the Tax Code you are organized under that you do not have to pay taxes?

Mr. **ABRAHAM**. No, I am sorry that I can't answer that, but I can find out for you.

Mr. **JENKINS**. Would you provide that for me, because I want to look into it.

[The information follows:]

ASSOCIATED MERCHANDISING CORP.,
New York, NY, April 25, 1985.

Hon. ED JENKINS,
House of Representatives, Washington, DC.

DEAR CONGRESSMAN JENKINS: During the course of the hearing on textiles and apparel issues, held by the Subcommittee on Trade on April 3, 1985, you inquired concerning the corporate structure of The Associated Merchandising Corporation. At the time, I responded generally that AMC is not organized to make a profit, since it essentially operates as a vehicle for several independent companies to share expenses in the areas in which we provide services. This letter is a brief elaboration of that answer, as you requested.

AMC was established in 1918 and is now owned principally by about 25 retail department stores (many of which are owned by chains). These stores pay AMC's net expenses through annual dues based on formulas set out in AMC's organic documents and related agreements. These annual dues are presently calculated with the intention of precisely covering our net expenses for the year. As this suggests, AMC does not presently make a profit from operations and, consequently, no tax liability accrues to AMC. Thus, AMC is substantially similar to a cooperative among the "shareholder stores." It is on this basis that we have generally referred to ourselves as "non-profit." I did not intend to suggest that AMC is either a "non-profit" corporation for purposes of the Internal Revenue Code or a "not-for-profit" corporation under New York law. When any operational profits or capital gains have been made in the past—from the operations of a wholesale company we have since closed down or from the sale of a profitable subsidiary, for example—AMC has paid all taxes due.

Let me add as well that the U.S. Treasury does indeed collect taxes on profits made when the retail companies which are AMC's shareholders sell the domestic and foreign products which we help them buy. I do not believe that any tax revenue is lost due to the structure of AMC. To the contrary, because AMC makes our shareholder retail companies more efficient and, hence, more profitable than they would otherwise be, I suspect that the Treasury actually gains by our existence, even when AMC itself does not make a profit and pay taxes directly.

In any event, the basic point is that AMC is essentially a substitute for a portion of our stores' own in-house buying and market research departments. We allow a number of separate companies to reduce their costs by sharing these expenses. That is our primary function, and it is on the basis of experience in those two specific areas that I appeared before the Subcommittee. I believe, as does the retail industry generally, that it is crucial that Members of Congress understand how and why we make our buying decisions with regard to textile and apparel products. Without that understanding, we fear the perpetuation of trade restricting policies which stifle our ability to serve the American consumer.

I hope this has answered your question. I appreciated the opportunity to appear before the Subcommittee and would be pleased to provide any additional information on these issues of great importance to our industry and the American economy.

Sincerely,

LEE ABRAHAM, *Chairman*.

Mr. **JENKINS**. Mr. Weiser, normally, your clients of course make a decision to purchase goods from other countries based on quality and price, I assume.

Mr. **WEISER**. That's correct.

Mr. **JENKINS**. When you make such a decision or they make a decision, they pass those savings on to the American consumer. Basically, that is what everyone seems to be saying. But you say that is not necessarily the case in the shirts, because they were of different quality. Is that correct?

Mr. **WEISER**. Well, the shirts were of different quality. What nonplussed me completely about those four shirts is if an American consumer saw four shirts—one made in Guyana, and I have never seen another garment—that's the first garment in my life I have ever seen made in Guyana, incidentally—one made in Hong Kong, one made in Colombia, and one made in the United States—why wouldn't he pick the United States garment if they're all the same price?

I don't know what—I know the exhibit was given for the purpose of establishing greater markups on imported goods, clearly, but the goods as we know now weren't totally of foreign origin. But if the U.S. product at an even price is competitive and is a quality product, why are they the same price? I ask myself that question. And I don't come up with a great answer.

Mr. **ANDRES**. Maybe I can shed a little light on this because we did some quick intelligence work as the shirts were put up. As the labels indicate, these are Sears' shirts. The Hong Kong shirt was purchased a year ago, and the source was dropped this year. The shirt was made from U.S. fabric. There is still some in inventory, so it's one import that didn't sell too fast. There were some quality problems with it. So the basic merchandising plan right now is for the three shirts, the United States, Colombia, and Guyana—the three shirts were purchased from a single domestic manufacturer at a single unit price. So that the shirts from United States, Colombia, and Guyana were all for the same price to Sear's. Whether they were to the manufacturer that sold them to Sears', we do not know.

Mr. **JENKINS**. I don't understand that. You mean the shirts were sold by some importer maybe to a retailer.

Mr. **ANDRES**. A manufacturer.

Mr. **JENKINS**. So the importer is not giving the retail store the break. Is that right?

Mr. **ANDRES**. Well, no, it could be that they averaged the cost of the three shirts in order to come out with one retail. Now, I might point out that——

Mr. **JENKINS**. Mr. Weiser is getting all that difference, is he? I mean his clients, the importers?

Mr. **ANDRES**. I might just point out that for the current program Sears' has gone from the single shirt from the United States in this case.

Mr. **Jenkins**. One of your clients, Mr. Weiser, is Avon Fashions, I believe. I was just taking a look at their 1985 catalog, spring sale. I am looking now at the oversized shirt for ladies. And having daughters, I am familiar with this particular garment. It's made of khaki, for $25.99. You have a choice, made in the U.S.A. or imported, for the same price. It makes no difference.

The next item, sweaters, $20.99. You have your choice, made in U.S.A. or imported. Another type of sweater, same thing, made in U.S.A. or imported.

Now, are they in fact passing along the savings? You indicated to me that your clients purchased imported items because they get a cheaper price.

Mr. **Weiser**. That is what you said, Mr. Jenkins.

Mr. **Jenkins**. Pardon me?

Mr. **Weiser**. That is what you had mentioned. That is one reason for importing.

Mr. **Jenkins**. That's the question I asked you in the very beginning. The question I am asking, since you can take your choice at the same price, all through the catalog, are those cheaper prices being passed on to the consumer?

Mr. **Weiser**. I don't know. I don't know that Avon imported those particular articles. They may have done the same thing that Sears' did by purchasing landed duty paid or purchasing from an importer.

Mr. **Jenkins**. Regardless of what they did, the American consumer gets no break in these items, do they? They're paying the same price as for the U.S. product.

Mr. **Weiser**. Well, my question would be—if I might ask—I haven't been informed as to why the American consumer wouldn't buy the U.S. product under those circumstances.

Mr. **Jenkins**. That's not what I am asking. You are indicating that the American consumer gains. I am pointing out from a catalog of one of your clients that they are giving the American consumer the choice of a U.S.A. manufactured or an imported article all at the same identical price. Who is making the difference on these cheaper imported articles, since it obviously is not the consumer, from this particular client of yours?

Mr. **Gluckson**. Sir, may I as an importer perhaps add my two cents to this discussion?

Mr. **Jenkins**. Yes, sir.

Mr. **Gluckson**. It's highly possible that they're working at a different markup, and since in order for the time schedule for the merchandise, they backed up the same garment and made it in the United States and made a portion of it overseas. I won't know and you won't know until you look at their merchandising plan and lay out their inventory, their turn of their inventory, A, what they paid for the goods and, B, what the turn is on it.

Because of the new trade law that was passed last year, the new bill, where you have to have the label country of origin, you will find more and more catalogs, in order to do just what Avon did, they put imported and also "made in U.S.A."

And I did testify at that bill before Senator Kasten, and one of the problems that they foresaw is just what you are talking about. But I do think many of the major catalog people have decided to straddle the fence and are making goods in both places. I don't know what the average is, where the higher markup is, or where the lower markup is.

Mr. **Jenkins**. Normally what would the markup be?

Mr. **Gluckson**. Normally, there is a risk factor taken which is at least 20 to 25 percent on your markup structure, so that we import, if a store or a catalog does import, that would be added on to the base price. But that's a risk factor that we as importers would take and pass on to the store if we sold it.

I think that the problem we're running into, and part of it with those four shirts that you saw up there, whether it was a silk Van Heusen or Clewitt Peabody or some of the others, what we consider American manufacturers selling to Sears, much of the goods that they bring in, better than 50 percent of the goods are imports, and they claim they're American manufacturers.

I think the men who are here today, the AMA, should have been asked one question, "What percentage of the goods do you import? What percentage of the goods do you import," and let's put the import and the domestic industry in the right perspective. And I think if the committee is going to do the kind of study job that I think they're going to do, I think this is a question they should ask a lot of the companies that they deal with.

Mr. **Jenkins**. I think that goes to the same point Mr. Andres made a few moments ago when he indicated that all of the machinery in textile mills is imported. Why is that true, there are no machinery manufacturers left?

Mr. **Andres**. I did not say all of it, but a fairly sizable percentage.

Mr. **Jenkins**. You are absolutely correct, and the reason for that is that there are none left. There are none left for them to purchase from. They're all in Germany, East Germany. You mentioned specifically looms, and that simply is they have no choice to buy them here.

Let me ask you this. I know I am familiar with your companies. You still own the subsidiary up in New York. You have seven or eight or nine department stores there in Detroit. Do your people there take the same position on automobile trade that you're taking on textiles?

Mr. **Andres**. I think they favor open trading policy, yes.

Mr. **Jenkins**. As a matter of fact, they supported the Detroit automobile industry in trying to maintain a domestic industry, did they not?

Mr. **Andres**. I am not certain that they would necessarily do that.

Mr. **Jenkins**. Sir?

Mr. **Andres**. I think they have favored an open trading policy throughout.

Mr. **Jenkins**. Each of you have testified that you think something has to be done for the textile industry for the 1.9 million people involved. Several of you have mentioned retraining for textile workers leaving out the balance-the-budget issue, specifically, what are you recommending for the domestic textile industry for its people? If it's not going to survive, say so in your opinion.

Mr. **Andres**. May I comment on that?

Mr. **Jenkins**. Yes, sir.

Mr. **Andres**. We talked earlier about the cost of quotas, and the cost of quotas costs the American consumer about $4 billion a year. That doesn't include the cost of tariffs. We also talked about how much it costs to subsidize through protectionist steps the various jobs in the textile industry. I think the figure was quoted as $35,000 to $41,000 per job.

But all of the protectionism, all of the costs of quotas, would provide an awful lot of retraining, relocation for the workers affected by foreign competition and still result in lower prices for the American consumer.

Mr. **Jenkins**. The problem is Mr. Andres, and I would be delighted if you would go around and look—the unfortunate thing is that most of the textile and apparel workers are in the smaller towns throughout the 49 States. All too often the great majority of those workers are second earners in the family, generally women. When you talk about relocating, you can't relocate a woman garment worker 200 miles away from her husband who now is working.

So you either have to have him quit his job and take both of them to wherever you want to take them to find other employment—and I am not saying that sarcastically, because I know those are the facts. What is your answer to the gentleman who testified earlier that closed a plant with 900 employees and there is only one other manufacturer?

Mr. **Andres**. Well, if we look back in history, we find that most of those textile plants and shoe plants were once located in New England, and then because of the lower wage rates of the South, those industries moved to the South.

Now, we all know what's happened in New England today. It has been least affected by the economic downturn. People there are employed in high-technology industry, and that is certainly a very burgeoning economy in New England. So it does show that the textile industry can move and its employees can move or can find other higher-paying jobs.

Mr. **Jenkins**. I know my time is about up and there are a lot of questions I would like to pursue. When you purchase, Mr. Andres or Mr. Weiser, your clients—and you've mentioned specifically the little hungry children in Peru, the 800 people there that you were concerned about, and I applaud that—but when you make your purchases of these garment items and you know that many of them are being made with 26-cent-, 30-cent-, 40-cent-an-hour substandard wages, in terrible conditions, does that make any difference whatsoever as far as the human standard of life in whether or not you purchase?

Mr. **Weiser**. May I respond?

Mr. **Jenkins**. Yes.

Mr. **Weiser**. The plant I visited in Peru was a model of efficiency and cleanliness. The workers were well treated. I did not say that they—it was not slave labor. These were trained workers. OK. If they are unemployed— and I don't care if they make 40 cents an hour—if they are unemployed, what are they going to do? Have you heard of the Shining Path guerrillas in Ayacucho in the south of Peru? They know what to do with unemployed workers: organize them into a leftist movement.

Mr. **Jenkins**. So to answer, you do not take into consideration the wage rates or the living conditions of any producers, manufacturers, employees in other countries in making your purchases? You make your decision simply upon quality and price, do you not?

Mr. **Weiser**. That's right.

Mr. **Jenkins**. Do you not also, Mr. Andres, quality and price?

Mr. **Andres**. Quality, price, and fashion. And I would just point out that after World War II, when I first started buying, we went to England and France to secure textiles and apparel. As their labor rates went up and they became uncompetitive, we moved on to Italy. The same thing happened in those markets. They had to concentrate on special niches. We went to Spain briefly, then to Japan. As that economy built up, they left the textiles and went into electronics and other higher forms of employment, and it went to Hong Kong, Taiwan, Korea. Now those economies are building up. And the textile industry at the very low end always tends to move where the labor rates are lowest. And as the economy gets built up, it moves on further.

You are now seeing a movement to China and into the Philippines. Some are predicting the next one would be Africa. But there you see capitalism building up an economy, and true, the working conditions may not be the greatest, but if you compare them with the other conditions of the country, they look pretty good to those people. And that's capitalism at its best, building up an economy.

Mr. **Jenkins**. The question I was asking I think has been answered. When you make a decision to purchase a garment made in a foreign country, the only thing you are really looking at is quality and price.

Mr. **Weiser**. Could I respond? Just a little wrinkle on that. There would be one consideration. You know, I am not a businessman, I am just a lawyer. There is one consideration that I would throw in. If a garment was truly made with slave labor, if a garment was made in one of the gulags in the Soviet Union, no, then I would not purchase it and I wouldn't care how cheap it were and I wouldn't care how fashionable it were.

True slave labor, the answer is no. And we have statutes, as a matter of fact, preventing those kinds of purchases anyhow.

Mr. **Jenkins**. That is the only country that you would not purchase from?

Mr. **Gluckson**. Mr. Jenkins, is it not feasible that by creating the marketplace we have for textiles for those people who had to enter the world market at some place. And if you go to Korea today and Hong Kong and Taiwan and they have raised their standard of living, doesn't it give us some hope for the future for the other countries?

I thought Congressman Campbell's discussion and dissertation—it was really more of a dissertation than discussion—would make a fascinating debate. And that is, do we have a right to put our moral values that we worked for for 200 years, as well as our material values, onto the price of a product that we buy and bring into this country?

Now, when we sit here and go out into the world as merchants, I think we look to buy, as you said it so very well, the best garment at the best price and the best style that we think we could sell. We don't become our neighbor's keeper in the sense that we're providing him with a dole or a handout or something of that sort.

I think we all agree—I know I live in upstate New York, and I think you have a problem of rural poor, most probably that no one understands as well as the rural poor in the South, and yet we have completely whitewashed it. We don't even talk about it. So that when we go overseas and we're looking at merchandise, I think it's the first time I have heard from a congressman or a Senator the equation of the man-hour wage or the woman-hour wage to be thrown into an equation.

I would love to have a further discussion because I wonder how it could be applied.

Chairman GIBBONS. Well, I think if we could apply that principle, we could salvage the domestic textile industry, because under the best of circumstances, with the most modern plants in today's world, it's going to be very difficult for long-term survival, I think, of the textile apparel industry.

Mr. GLUCKSON. But, sir, you live in the South, and I have heard Mr. Jenkins say a number of times this is a $5.75-an-hour industry and maybe with fringe benefits it gets up to $7.25. It's the least paying really industry in the United States. Is there no way through research, training, and funds that we could change this from a $5.75-an-hour industry to an $8.75 or a $9 other type industry?

I am not saying it has to go. It's going to go the way that it will in the next 4 or 5 years. It might become much more productive, much less labor-intensive. But aren't these the things we should be thinking about rather than just protectionism?

Mr. JENKINS. You have given me some ideas. Maybe there should be a retail tax. Maybe they should bear the larger part of the burden of retraining people for high-tech industries. That might be something that we ought to look at.

I know my time is up, Mr. Chairman. I thank you for the additional time.

Chairman GIBBONS. On this pricing, I think it concerns us all. I would imagine what happens is that there is some blending of pricing. Isn't that what happens? You've got some person that, say, runs a shirt manufacturing operation in this country, and maybe they've got an 807 operation down in the Caribbean also on shirts, and then occasionally they just import shirts. And the shirts are all probably made to the same cut and the same, relatively the same, specifications. There may be some slight difference in them. But isn't there some blending of prices in that kind of operation, where you try to come out? Does that happen in your industry?

Mr. GLUCKSON. Well, what happens, many major importers do that. I am not so sure how many of the retailers would do it, because they would need the uniformity of both make, and fabric, I think, which Steve said was true. If we purported to sell something at 60-40 blend and it came in at 70-30 blend, there would be repercussions.

I think many of the importers do source three or four different places. I would prefer the retailers to——

Chairman GIBBONS. But why do they do that? Why do they source three or four different places?

Mr. **Gluckson**. Well, we have a very interesting case. I wish Mr. Lanahan were here and Mr. Imus. We don't know when we're going to get the next call out of Bangladesh. We're making Oxford shirts in Bangladesh. We might be making them in Indonesia. We're making them in Taiwan and Hong Kong. Well, if you know you're going to try to sell *x* number of dozens, you're going to protect your sources. So that what you do is make it in more than one country.

If I were a manufacturer of piece goods today and going vertical like Stevens and some of the others, I sure as the devil would do 807. And I think this is what's happening. And what Mr. Jenkins was alluding to before is maybe there are other ways to stimulate the domestic industry, maybe we have to be giving more thought to what we're doing than less.

And I think what the importers feel, because of that creativity and because of not contravention but because of the need to provide a service to their customer, they are being penalized. And that is what protectionism does.

Chairman **Gibbons**. Let me ask you. I have heard when I was in Singapore last that the Singapore policy is to try to get rid of the garment industry in Singapore and to export it out of Singapore. Is that happening? Do you all know? Do you import from Singapore?

Mr. **Abraham**. We do, Mr. Chairman, import from Singapore. And I think there is some partial truth to that. As Mr. Andres just stated a few moments ago, the apparel industry worldwide is at the bottom of the scale and is developing, and as it develops it moves and evolves. It's very much of an evolution.

In Singapore, which is very much a managed economy, they decided, if I am not mistaken, about 2½ years ago that they wanted to move into the construction field. And so they gave a lot of incentives to move a lot of people into the construction of new buildings, new subways and so forth and so on. And that had the effect of drawing people out of the socalled needle trade or textile trade in the area. And that is something that has evolved.

But I think that was sort of halted as a result of the oil glut, if you will, with the lack of moneys coming in from the oil business, that construction program was sort of put on hold. But I believe you are correct in your statement that that was the case a few years ago.

Chairman **Gibbons**. I am interested in this catalog that Mr. Jenkins has over here, because I didn't follow that labeling bill too closely last year. And apparently, you say that——

Mr. **Frenzel**. I guess you didn't vote that time.

Chairman **Gibbons**. I have forgotten how I did vote.

Go over that again for me. Why would they be putting that in their catalog as both imports and domestic at the same prices?

Mr. **Weiser**. If I might, Mr. Chairman. There was an amendment to the Textile Fiber Product Identification Act and an amendment to the Wool Products Labeling Act, whereby for mail-order catalogs it affected wearing apparel and fabrics in many different ways. But for mail-order catalog orders, one must state in his catalog that an article was made in the U.S.A. or imported for the benefit of the consumer.

And that is why, as Sim Gluckson so well put it, and I really couldn't because I am not on that end, importers who do both domestic and import business and know they're going to do both must out of necessity cover themselves in terms of accuracy and disclosure and make a representation that the article is made in the U.S.A. or imported.

Chairman **Gibbons**. So we're going to see that, I guess, in all these mail-order catalogs, aren't we?

Mr. **Weiser**. That's right.

Go ahead.

Mr. **Gluckson**. Well, I think part of the problem was that nobody took the bill very seriously when it started out. And there was, besides a codification of the labeling—and that was the bill that for the first time stated that all goods made in the United States had to carry a "made in U.S.A." label, which is something that I thought was rather redundancy. If you are proud of the product you were making in the country, you should have that label in there without it being mandated.

Mr. **Frenzel**. That was already in the law.

Mr. **Gluckson**. I am sorry.

Mr. **Frenzel**. What it did was tell you where you had to put it.

Mr. **Gluckson**. Oh, I am sorry, Congressman.

Mr. **Frenzel**. More excessive Government regulation.

Mr. **Gluckson**. Oh, OK. I am sorry, sir. I misunderstood that. I thought it was the first time and couldn't understand why it had to be done.

Mr. **Frenzel**. People did focus on it. I had some wonderful amendments to exempt the catalog industry but unfortunately the House, as is usual, failed to accept my brilliant advice.

Mr. **Gluckson**. Well, that's the reason, Congressman Gibbons, the customer who wants to buy from the catalog should have the right to buy either imported or made-in-U.S.A.

Chairman **Gibbons**. We're going to get a lot of questions on that, and there's going to be a lot of discussion on it. I want to see if I understand it, because I am probably going to have to explain it. The reason why we see that in catalogs is because of an Act of Congress, and it's mainly to protect the catalog publisher or the people who put the catalog out, that they have to put that in there. I don't want to oversimplify it or overgeneralize it. Is that it?

Mr. **Frenzel**. Would the chairman yield?

Chairman **Gibbons**. Yes, sure.

Mr. **Frenzel**. That bill, of course, didn't come out of our committee, it came out of another one. It was plainly a bill to protect the domestic textile industry. They thought that if the labeling was more plainly displayed, Americans would want to buy American gear. I think that's probably true.

What it did, of course, was violate the principle of national treatment. They thought that if they forced people to print in their catalogs exactly what was being offered, then people would not choose the foreign one but would instead choose the domestic one.

I warned at the time that that bill was on the floor—and you can read some of those remarks in the CONGRESSIONAL RECORD—that they would have sourcing problems and that there was no way you could run a catalog operation with that silly language in the law.

Now, what you're seeing in the catalogs today is the fulfillment of my prophecy, but it is worse because of the new calls we have had. Companies who used to be able to predict what they were going to source outside of the country and from what country it comes can't do that anymore because tomorrow you're going to wake up to one of those every-other-day calls from the Commerce Department and your catalog is going to be out of order. So your only defense is to say, "This shirt comes from Taiwan, Colombia, Iceland, or the United States." That's the only way that you can cover yourself.

Naturally, you're not going to offer a different price for each of those, because it's too damned complicated. Your customer won't understand it. What we have done is, I think, in an important way louse up catalog merchandising, which could have been, if handled rightly, probably a bonanza to the domestic industry as well as to foreign producers. But it was the usual excess of trying to take care of our folks that loused it up.

[Pause.]

Chairman GIBBONS. Well, there's so much going on around here it's hell to try to keep up with it. That one got by me without me seeing it, unfortunately. I guess that came out of Mr. Dingell's committee, is that right, Bill? Did it come out of Mr. Dingell's committee?

Mr. FRENZEL. I can't remember if it was Energy and Commerce or Judiciary. It was Energy and Commerce, probably.

Chairman GIBBONS. OK. Let's see. Mr. Frenzel.

Mr. Frenzel.

Mr. FRENZEL. I guess I am beginning to look like him, too.

Chairman GIBBONS. No, you don't. No, you don't. [Laughter.]

Mr. FRENZEL. Mr. Chairman, I want to thank the panel for their testimony. I particularly want to thank my neighbor, Bill Andres, whose company's tentacles still pursue me even when I hide in McLean, VA. I somehow get invoices every month. I don't know how Mrs. Frenzel does it, but somehow she does.

I want to thank Mr. Weiser, whose law partner is well known to this subcommittee. We are delighted to have you.

And Doreen Brown is an old friend. I am sorry she had to leave. I would like to ask unanimous consent to have the staff put a question to her with respect to her 1983 study on the cost of textile protectionist measures to consumers, would like to ask her who conducted that survey, to give us more information on it and to ask her if there are any plans to update it, since the protection has obviously gotten a good deal stronger since then.

Chairman GIBBONS. Without objection.

[The information follows:]

RESPONSE OF DOREEN BROWN TO REQUEST OF MR. FRENZEL

THE 1983 STUDY ON THE COST OF TEXTILE PROTECTIONIST MEASURES TO THE CONSUMER

The 1983 cost figures cited in the testimony came from "The Cost of Protectionism: Estimates of the Hidden Tax of Trade Restraints" Work paper No. 80, July, 1983, by Michael C. Munger, Center for the Study of American Business, Washington University, St. Louis, Missouri.

Mr. Munger was then a graduate student in economics and chief research assistant for Murray L. Weidenbaum, Director of the Center.

The study estimates that the textile and apparel restrictions cost consumers about $18.4 billion a year (in 1980 dollars:) $3.160 for textiles and $11.795 billion for wearing apparel due to tariffs (Table 2, P. 10—Costs of Tariffs by Product Category) and $3.416 billion for apparel and textiles due to quotas (Table 3, P. 14—Cost of Quantitative Restrictions to U.S. Consumers.)

An explanation of the method used to determine the cost of tariffs begins on P. 5 of the study and of quantitative restrictions on P. 11.

Mr. Munger is presently employed by the Federal Trade Commission in Washington, D.C. A phone conversation with Mr. Munger and with Mr. Wiedenbaum in St. Louis revealed that there were no immediate plans to update the 1983 study.

Mr. FRENZEL. Mr. Andres, you commented on the display of the shirts from different places that were all offered at the same price. You have been in the retail business all your life. If a piece of gear is bought more cheaply by your company, whether domestically or abroad, is it normally going to sell more cheaply than another piece of gear that costs you a little bit more?

Mr. ANDRES. That's a good question. Generally, the cheaper we can buy the goods the cheaper we can retail the goods. And I know implied in some of the questions and in the review of the shirts here the retail industry is accused of getting higher margins on imports.

Now, probably the initial markup is larger. But when you add all the additional costs, the cost of the buyer trips, the much longer lead times you have, the fact you can't return the goods, can't return the goods for poor quality, the goods are paid for in advance by a letter of credit, the telecommunication costs back and forth across the ocean and a multitude of other costs, it's questionable whether the final sustained markup is any larger than it is for domestic goods.

When you are projecting that far in advance as you have to compared to the domestic market, when you're buying in that large a quantity, it's very easy to make a mistake in the fashion industry, which is known for change.

So I think that the margins generally are roughly comparable to domestic sources. Now, that wasn't true, say, a decade ago when imports were first appearing. You had exclusivity. But today, with imports representing 15-20 percent of a retailer's business, it's a very competitive market, and it's just as competitive now for import merchandise as it is for domestic merchandise.

You quickly learn in this business as a merchant that you don't go out and focus on buying goods for markup. That's a good way to have an awful lot of markdowns. If you train your buyers to go out and look for the right fashion trend, to buy the right colors, the right sizes, the right timing, and if you do this and buy the things that customers want, the margins tend to take care of themselves, whether you're buying domestically or whether you're buying overseas.

Now, I have to say there is a self-interest on the part of retailing with respect to imports and open trade policy. It isn't in the margin side of the business, but it lies in the side that if we have trade restrictions on automobiles, steel, copper, or what have you, textiles, the customer ends up with less discretionary income, the economy ends up with fewer jobs when protectionist steps are taken.

And if you have that condition, you have a weaker economy. The customer has less discretionary income because they are paying more for other products and have less to spend in our stores. And when you have a weaker economy, you have weaker retail businesses. And that's the self-interest of a retailer in this whole subject of international trade policy, because if you have a weak economy, our business isn't very good and the business isn't very good for any business in this country. And we think there is a direct correlation between open trading systems and the strength of our economy.

Today we are the marvel of European countries of how we can create so many new jobs over here. The key factor has been that we have always been in the forefront of open trading policy in spite of some of the recent trends. So I think that's the self-interest of retailers in this whole subject of trade.

Mr. **Frenzel**. A good statement. We're strong because we're not making wagon boxes and buggy whips, but are making whatever the public would like to use.

Chairman **Gibbons**. Could I reinforce that?

Mr. **Frenzel**. Excuse me, Mr. Chairman. I would be glad to yield.

Chairman **Gibbons**. As everyone knows, I have traveled a lot and intend to travel a lot more, and every place I go where there is a highly protected economy, it's a high-cost economy and there isn't much economy there. That to me is the bottom line. I know it's fashionable now to thrash the Japanese, and they live in a protected economy. But when you go and look and see how the Japanese live, nobody around here wants to be Japanese. You know, their average worker lives about like our welfare recipient lives. That's about their standard of living. They have one of the worst systems of medical care in the world. They have the highest-cost food in the world. They have the highest-cost housing in the world. And they just don't live very well. They don't even live very well in Tokyo.

It's really because the great Japanese industrial revolution has not been shared with the workers in Japan. I don't know how long it's going to go on like that over there. Maybe it's because of the nature of the people, they can get away with the way they do things.

But I just want to reinforce what you say. I have never seen a protected economy, one that's got barriers to everything, that really was producing very well and raising the standard of living of the people involved. That's what worries me about all the protectionist moves.

Excuse me, Mr. Frenzel, for interrupting.

Mr. **Frenzel**. Thank you, Mr. Chairman.

Chairman **Gibbons**. I just had to reflect on that.

Mr. **Frenzel**. It was well worth the time.

Mr. Andres, again talking about normal markups and normal prices, there is one way that you can make more money off an imported good, and that's when somebody in the United States imposes a quota on it and you suddenly have a product for which there may be normal demand but a restricted supply. In that case, you can get what the market will bear. Is that true?

Mr. **Andres**. Well, that seems to be the case of automobiles we've recently read about, and I think it would apply to other protected merchandise as well. And I don't think in the longer term that's going to be in the consumer's interest or in the retailer's interest.

Mr. **Frenzel**. Well, of course not. I get tired of people telling us that the markups are too high on foreign goods. Usually, where that's true, it's something they brought on themselves by their own protectionism. To suddenly say that that's an excuse why they need more protectionism strikes one as being very unusual logic.

Chairman **Gibbons**. Could I interrupt there?

Mr. **Frenzel**. Sure. I would yield.

Chairman **Gibbons**. I am just waiting for this automobile issue to start up again around here, because I have got some proof as to what actually happened to the American automobile prices. I have got an invoice of a 1982 car and a 1985 car. The same identical car, not one iota in change in style or equipment or anything else; bought from the same dealers with no trade-ins or anything else. And the price went up $1,000 a year for the same car.

Now, I have heard Lee Iacocca and I have heard a lot of other people, but I have got the invoice and can show that the price of that car went up $1,000 a year, far above the average inflation in the United States. Just a complete rip-off of the American customer. And I am waiting to use that information.

Mr. **Frenzel**. I thank you, Mr. Chairman. I merely wanted to make my point because of testimony we always get. We always get three shirts or three pairs of pants that are suppose to show that the foreigner is ripping off the Americans. What is happening is the American is ripping off the American by the imposition of quotas. In an unrestricted market, the American consumer gets the best possible deal he or she can because of the competition that's there.

I also want to talk about wages. My friend from Georgia, whose area I am going to visit soon, has indicated that perhaps there is something wrong with buying material from overseas when the people who worked in that productive facility were getting low wages by U.S. standards. I am not sure that the textile people can have that argument both ways.

They tell us that they need protection because they are a substandard wage industry in the United States. Yet if you buy from another country where the wage may not even be substandard by local standards but by U.S. standards, they are somehow immoral or ethical violations.

I have visited textile plants outside of the United States. Many of them are not very pretty. On the other hand, compared to the alternative, which is the same thing that's bothering Mr. Jenkins' constituents—that alternative is no job at all—that's a pretty good deal.

I am impressed continually by the fact that by providing a market in this country, that we have caused the trickle-down phenomenon that Mr. Andres described. That is, first we bought in the developed countries, then we got into the less developed, and pretty soon we're going to get into the least developed. At that point we're going to be doing some social good around the world. We're going to be helping the poorest of the poor, and, of course, that's going to happen because of the quotas that we are now imposing on the more developed of the less developed countries.

I wanted to make that point as well.

Mr. JENKINS. Would the gentleman yield?

Mr. FRENZEL. I yield to my friend.

Mr. JENKINS. I know that we have a vote right away, but I wanted to respond very briefly.

It is true that the textile apparel industry wage rates are low as compared to any other sector, without any doubt. But I want to point out that the Congress and the U.S. Government has established a minimum wage that has been in existence a long time, and there is not a single garment industry that is paying below that standard as set by the Congress.

Mr. FRENZEL. I agree with that. We were given the figures this morning that the average wage in the industry is $5.37. I think the minimum wage is $3.25.

Mr. JENKINS. The point I am making, when you indicated that the industry is taking one position, we are only taking the position that we have not been as an industry excessive in our wage demands.

Mr. FRENZEL. OK.

Mr. JENKINS. Unlike steel or unlike a host of others that are paying $22-23 an hour, I don't believe that the charge can be laid to the domestic textile apparel industry that they have priced themselves out of the market from excessive wage rates. If that be true, then we don't have a complaint.

Mr. FRENZEL. OK. You may be right, but I will make the point that the wages in the countries of foreign production are no more variant from their average wages in manufacturing and may, in fact, be less than your wages are in this country. So we are no more immoral buying those kinds of things than we are buying from the domestic industry here, although its production employees may get less wages than the steel worker or an auto worker.

I want to get back to a statement of Mr. Andres, Mr. Chairman, about the dividing up of the market.

The Multifiber Arrangement is essentially an international cartel, is it not?

Mr. ANDRES. That's right, in terms of setting up quotas.

Mr. FRENZEL. Eventually, we will have carved up, particularly if we restrict the growth in it, we will have carved up all of the major markets of the world—that is, the industrialized countries and assigned them to other countries. There will be no incentive or little incentive to serve the consumer with well-priced, well-designed, innovative products. Isn't that what always happens under a cartelization program?

Mr. ANDRES. Well, as Mr. Abraham commented, one of the first things you have when you have a quota and you're limited to a certain number of units, the first thing you do is eliminate the very low price unit because you want to get the most from the quota, so you upgrade your manufacturing.

One of the areas that Lee commented on, children's wear, the budget lower-priced children's wear soon disappears from that market, and low-income customers have no place to turn to to buy that kind of merchandise to make their limited budgets go around.

So you are right, there is less orientation to customer need when you go on the quota system. You can only do so much business, so you're going to pick what will be the most profitable for you, not necessarily what's in the best interest of serving the customer.

Mr. **FRENZEL**. Thank you very much.

Mr. **DANIELS**. May I make a point?

Mr. **FRENZEL**. I would be pleased to yield.

Mr. **DANIELS**. I think that's an interesting point because a cartel breaks down when you have new entrants or when you have growth in the total amount of trade that is covered. The MFA was set up originally in 1973 as a process for slowing down growth somewhat, but maintaining growth, and it had special provisions for new entrants into the market. What the bill that has been introduced attempts to do is to stop growth and stop new entrants. So they are trying to perfect a cartel, if you will.

Mr. **FRENZEL**. Well, sure. And in the last round of the MFA, the U.S. position did not prevail, because the EC wanted more restrictive arrangements. The United States at that time still had a relatively free trade position, although substantially influenced by the domestic apparel industry.

But as we look forward to 1986, one trembles with fear about what will happen if Europe is in its same position and we tend to take the harder view, which is espoused by those people who are supporting the domestic industry.

I want to thank the panel. In years past we have often had poor Doreen Brown testifying all by herself on behalf of the consumer, and the increased interest and increased effort by you and the industries that you represent I think is very helpful in displaying for the subcommittee a more balanced view of what's happening in the textile world.

I don't mean to say that we don't have a problem and that the gentleman from Georgia does not have some very important points that need to be made and that there aren't problems that need to be solved. But on the other hand, it seems to me the Government probably would be more fair to pick up those costs itself rather than to lay them sneakily way upon the consumer, in a way that the consumer can't count them.

Mr. Gluckson, I want to apologize for you. You were right and I was wrong on that labeling bill. You were nice enough to concede. I want the record to show that I was wrong.

Mr. Chairman, I yield the balance of my time.

Chairman **GIBBONS**. Thank you.

Gentlemen, that concludes you all.

Mr. **GLUCKSON**. Thank you very much, Mr. Chairman.

Mr. **ANDRES**. Thank you.

Chairman **GIBBONS**. We have one more witness today. We have the American Caribbean Trade Association, Mr. Ronald Kohn president.

Mr. Kohn, let's proceed with you as rapidly as we can. You must be worn out from having sat here all day.

Mr. **KOHN**. At least as worn out as you are, Mr. Chairman.

Chairman **GIBBONS**. Go ahead, sir.

STATEMENT OF RONALD KOHN, PRESIDENT, AMERICAN CARIBBEAN TRADE ASSOCIATION

Mr. KOHN. Mr. Chairman, good evening. Thank you for allowing me to testify before the subcommittee on the issues and the opportunities facing the textile industry.

Before I summarize our written testimony, I would like to comment on the four shirts that were up on the board a few hours ago. I would like to comment on the minor differences, minor enough that Sears' retailed them and packaged them in the same form, sold them at the same price, and that the best buy was 807, and it was 807 using U.S. material. I think that is a fact that I am glad it was brought up independently, for my testimony I hope is going to corroborate that.

I come here today in two capacities. First, I come as president of the American-Caribbean Trade Association, a group consisting of U.S. companies operating in the apparel industry under section 807 of the Tariff Code. Our membership operates primarily, but not exclusively, in the Caribbean and Mexico, Central America, and South America. We are part of the American industry, a very healthy part. We formed our group more than 1 year ago because we're concerned about the counterproductive trade policies of the United States regarding outward processing of U.S. material.

Quantitative limits are applied to us in the same manner as they are to full imports. Our industry is one of the few segments of the American apparel complex able to compete effectively against the rising flood of imports. Yet we have not grown in the last few years as imports have, because of the quota restrictions placed on us.

We are hybrid importers. Our fabrics and raw materials come overwhelmingly from the United States. We buy our fabrics, buttons, bows, elastics, zippers, cartons, bags, everything, here. We cut the fabric here. We ship the cutwork offshore for sewing assembly, bring the finished products back, pay duty on the foreign value added, and distribute to our customers across the United States.

Fully 80 percent of the wholesale price of our garments are U.S. costs and profits. Certainly, our goods are different from a finished product from the Far East with wholly foreign material and wholly foreign labor used to produce it.

Yet during the last several years, regulations have been imposed on all imports without regard to the differences between U.S. companies using U.S. material and their competition using foreign goods imported and sold in the United States. 807 is an effective tool to be used by the American industry to compete worldwide.

One example of this—and this is the second capacity in which I come here today—my company is Rhobbe, Inc. It's a family business that has been manufacturing children's sportswear since 1914. I am not that old. I am the third generation.

For over 55 years, we manufactured in the United States. And in the late 1960's we faced the problems that face the rest of the industry today. Imports flooded our market and eroded our share of the industry to the point where we lost all first orders from retailers and we were simply servicing reorder business when there was reorder business. It was an impossible situation, and we just couldn't continue.

We had to become cost effective and competitive. By moving the labor-intensive portions of our garments offshore, we were able to compete with these very imports that were plaguing us at the time.

By chance—and it was by chance—we met a Haitian businessman, and after several meetings we opened a small factory with six sewing machines. It wasn't easy. We brought in American equipment, technicians, and techniques. The workers were willing and able, but they had to be trained for efficiency and quality.

Actually, the workers were and are very capable and very dextrous. Our biggest problem in the Islands was training middle management. We developed a policy that we would train the best operators and best workers from within our own ranks for production control and quality control. In over 15 or 16 years that we have been there, this has been among the most satisfactory rewards: seeing them develop.

I said a few minutes ago it wasn't easy. And it wasn't easy. But the benefits that came to us came quickly. Our costs dropped dramatically. Business and customers that were lost to us in the late 1960's came back to a point that we never anticipated. We were very competitive. And the business that we were taking we were taking from imports. That has always been our competition for the last 15 years.

In fact, our problems since the early 1970's has not been imports at all, it's been the flow of business coming our way and our ability to handle it and the restrictions that have been put on us so that we can't grow in the last several years.

Our customers prefer to do business with us because they don't have to put up a letter of credit, they don't have to buy 8 or 9 months in advance, they can pay on open terms. They treated us, and they still treat us, as a domestic source.

Our factory in Haiti has grown since 1969 from six machines to 1,000 machines. Our employment record in the United States is also good. In 1969, our total employment, including sewing, was 100 people total. Today, in our warehouse in Miami we employ 100 people in higher-paying managerial jobs. This does not include the people who work supplying and servicing our company from their respective companies.

In 1969 we bought 150,000 yards of cloth. In 1985 we will buy 3 million yards of cloth from American mills. We are part of the American apparel industry. We are members of the AAMA. We buy our goods from the ATMI and Manmade Fibers Association.

807 has worked for us. We don't need protection. In fact, we export. It's worked for hundreds of companies like us. It has also worked for our Caribbean partners and their friends. It creates jobs. It provides hard currency to pay debt. And most important, it creates an economic infrastructure open and friendly to the American way of life.

I mentioned before that I work in a family business. My world is different from my father's in one very important respect. He was able to do all of his business buying and selling and everything within the continental United States. My world is much smaller. It's as easy to call or telex New York as it is Hong Kong or Haiti, and transportation from the Far East to Miami is as cheap as from North Carolina to Miami.

The world is small, but the world is open for those who see it. We must make use of the world for sourcing as well as marketing. There is no reason American industry cannot compete world-wide. But we must use the world and its opportunities wisely.

We came here today because we want recognition in three areas. First, we want you to recognize that 807 is different from full imports. Second, we don't think you can address all the problems of quota without addressing quota for 807. We want an atmosphere of no quotas so that 807 manufacturers have the time and opportunity to develop. Third, we want duty-free treatment for 807 for U.S. goods processed offshore. If the United States can grant duty-free status to Israeli goods, it is only logical and reasonable to grant the same status to apparel made using U.S. materials.

Thank you.

[The prepared statement follows:]

STATEMENT OF RONALD KOHN, PRESIDENT, AMERICAN CARIBBEAN TRADE ASSOCIATION

Chairman Gibbons, and Members of the Subcommittee: The American Caribbean Trade Association would like to thank you for the opportunity you are giving our membership to come before this Subcommittee and to offer testimony on the subject of trade in textiles and apparel products between the United States, and the Caribbean, and Central America. The American Caribbean Trade Association represents more than 70 United States domestic apparelmakers who have prospered by pursuing a joint production strategy with apparelmakers in more than 15 Caribbean and Central American nations.

The Association was formed so that these U.S. apparel manufacturers could give expression to their concern over what we view as a counterproductive U.S. trade policy. This policy results in quantitative limits being applied to apparel made entirely from U.S.-made fabric, yarns, buttons, zippers, and other U.S.-made materials.

The member firms of ACTA are, like other U.S. apparelmakers under a constant threat from surging imports of apparel manufactured in Far Eastern countries. Each of us became "import impacted" sometime over the last 20 years. At the Rhobbe company, we began to feel the effects of Far East imports around 1967. Our market in the United States began to erode. Our plans to sell in Europe, which were well-advanced, had to be postponed. We found that our styles were being duplicated by Far East countries at a lesser cost.

Rhobbe, Inc. suddenly found itself faced with a decision to move some of its operation to a lower-cost environment or to cease operating. Rhobbe had good ties with U.S. fabric and yarn manufacturers. We liked their product; we liked the terms of delivery; and we liked the way these supplying firms did business with us. We weren't going to give up these relationships.

The way for Rhobbe to save costs clearly appeared to be to lower the cost of final assembly of our garments. This would mean implementing a joint production strategy with a foreign country and its entrepreneurs where the costs associated with assembling apparel is low.

We moved offshore: We began assembling garments in Haiti.

We started with six sewing machines and a manager by the name of Franz Berman. Franz is, 15 years later, managing an assembly and finishing factory in Haiti, where he uses the latest U.S. technologies, U.S. equipment, and manufacturing techniques brought from the United States. When we started in Haiti, some members of our U.S. team lost their jobs, but most of our group stayed employed. Those who left us found other employment. Because it was apparent that without the move offshore, Rhobbe, Inc. was not going to survive, our firm's decision was accepted without acrimony.

During the last 10 years our business has grown and prospered. We have added machines in Haiti on a regular basis. We developed a better understanding and relationship with our Haitian partner, and with the Haitian worker. We learned that the best approach to improving workplace conditions abroad is to show local management that more concern for worker health and safety had a positive impact on profitability.

Our success with joint production has achieved another objective: Rhobbe Manufacturing, over the past 10 years, has steadily increased its consumption of U.S. fabrics, yarns, zippers, buttons, and a host of other U.S.-made materials. Over the last decade, we have been responsible for providing U.S. wokers with thousands of hours of employment, healthy paychecks, and a clean and safe work environment. We were, and are, an all-American manufacturer.

Today, Rhobbe, and companies like it, are in a position not only to compete effectively with imports from the Far East, but to displace those imports in the U.S. market. We have loyal U.S. customers who know that our products will be made from the finest and most durable fabric made in the world—U.S. fabric. They know they will be getting a garment that accurately reflects U.S. consumer preferences, and is easy on the wallet. The member firms of the American Caribbean Trade Association are beating their Far East competitors in men's and women's shirts, pants, coats; in children's wear; in fact, in all the most popular forms of wearing apparel.

U.S. textile agreements policy and the Textile Agreements Program will not allow an expansion of our plant in Haiti. We are under a strict U.S. quota. Our shipments are counted in the same fashion as shipments from the Far East. Even with 70 percent of our materials of U.S.-origin, our goods returning from the Caribbean are still judged a foreign product, and are subject to the same market disruption standards as goods containing no U.S. value-added.

We are here today to request this Committee's support for an immediate change in the U.S. Textiles Agreements Program with respect to the reimportation into the United States of apparel assembled abroad wholly from U.S. fabrics, yarns, and ornamentation. These goods should not be subject to any U.S. quantitative restraints so long as U.S. materials are used exclusively.

Further, these products should not be dutiable. Soon, apparel products from Israel will enter the U.S. duty-free. These Israeli-origin products are unlikely to contain a thread of U.S. content. It seems anomalous to be levying any duties on U.S. reimported apparel, when comparable foreign goods can enter duty-free.

The members of the American Caribbean Trade Association believe that the actions we propose would be a logical and practical way to reduce the negative impact upon our economy of Far East apparel imports. What could be a better policy for the United States at this time, than to give its own apparelmakers the best possible environment in which to displace Far East imports?

Our proposal would give our friends in the Caribbean and Central America a chance to put many more workers into a modern production setting; to learn U.S. management techniques; and to see the commercial benefit gained from using first quality U.S. textile materials.

The American Caribbean Trade Association believes strongly that U.S. trade statutes must be honored by our trading partners if they are to continue to have access to the U.S. market. Further, the member firms of ACTA recognize that the joint production strategy is threatened whenever there is a trade dispute between the participating national governments. Therefore, we would welcome the implementation of a strict system of customs monitoring and inspection to assure that the liberal U.S. policy we advocate can be implemented without problems of trans-shipment or other means of circumvention.

We urge the Members of this Subcommittee, and all the Members of Congress, to consider our proposals, recognizing that current U.S. policy is keeping U.S. apparelmakers from competing more effectively with our trading partners in the Far East.

The American Caribbean Trade Association respectfully submits this testimony on behalf of U.S. apparelmakers whose continuing viability depends upon the outcome of your debate on the future of the U.S. Textile Agreements Program.

Chairman GIBBONS. That is an interesting statement. I have some 807-type garment industries in my area, too, and I am pleased to report that small struggling businesses employing two or three hundred people a few years ago now have a thousand people in the United States.

Has your U.S. employment increased also?

Mr. KOHN. My U.S. employment right now is exactly the same as it was when I was sewing in the United States, but the big difference is the kind of jobs that are there. They are managerial in nature, they are higher-paying, and I think I have created a tremendous amount of jobs in the fabric area, elastic, buttons, and my suppliers.

Chairman GIBBONS. Yes.

Mr. KOHN. No question about it, 807 does create jobs.

Chairman GIBBONS. How do you move the goods back and forth between the United States and Haiti, by sea or by air?

Mr. KOHN. Both, but primarily by sea.

Chairman GIBBONS. OK.

Mr. KOHN. I ship container loads of goods every week down and bring them back as well.

Chairman GIBBONS. Are there other Americans doing business in Haiti alongside you?

Mr. KOHN. Yes, but it's become very difficut. Haiti was one of the first countries in the Caribbean to have quotas. It was put on them about 10 years ago, and the growth levels, there were no growth levels. The quotas that were imposed on them basically reflected the business that was already there.

The problem now is the consultation mechanism. You can't invest any more in the Caribbean or anywhere in a factory of 200 machines or 150 machines, make a commitment of all those dollars, build the building, put in the cutwork, train the workers, and then have yourself called for consultation mechanism, you know, a consultation call.

I saw a factory last year in Haiti get called and a quota put on them in the category of 30,000 dozen. 30,000 dozen represents, on the item that they were producing, 50 machines, 6 months' work. It is just simply not reasonable.

Chairman GIBBONS. We are going to have to conclude this hearing now because there is a vote on that we must respond to.

This concludes today's list of witnesses.

The subcommittee will reconvene at 8:30 a.m., on Friday morning, in Helen, GA, to continue these hearings.

We thank all of today's witnesses for appearing, and we thank you very much in particular, Mr. Kohn, for your coming and staying so long. And we are sorry that we have to adjourn.

Mr. KOHN. It's my pleasure.

Chairman GIBBONS. Thank you.

[Whereupon, at 6:15 p.m., the hearing was adjourned, to reconvene at 8:30 a.m., Friday, April 5, 1985, in Helen, GA.]

CURRENT CONDITIONS IN THE TEXTILE AND APPAREL INDUSTRIES

FRIDAY, APRIL 5, 1985

House of Representatives,
Committee on Ways and Means,
Subcommittee on Trade,
Helen, GA.

The subcommittee met, pursuant to call, at 8:30 a.m., in Masters Hall, Unicoi State Conference Center, Helen, GA, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

Chairman **Gibbons**. Good morning, ladies and gentlemen. I want to announce that this is the Subcommittee on Trade of the Committee on Ways and Means, and today we will continue our hearings that we began last Wednesday in Washington on the subject of conditions in the textile and apparel industries. I want to say parenthetically that we haven't had a series of hearings on the textile and apparel industry in quite some time. Probably the last set of hearings was about 10 or 15 years ago.

Your Congressman, my good friend, sitting on my right here, Mr. Jenkins, has been pressing me very hard and pressing the committee to have these hearings. And we are so glad to start in his district here.

This is a field hearing and a part of the subcommittee's fact-finding missions that will continue through the next week with visits throughout the South. Then we will go up to New York City and look at the garment trade there, and then Pennsylvania and perhaps out to California.

We know that the garment industry in particular is scattered throughout the United States. The purpose of our travels is to try to get the full flavor of these industries, before we take any appropriate action. We want to learn about the industry first hand by hearing from you all. We try to be as informal as possible in these fact-finding and information gathering exercises, and we hope that we will learn as much here as we have enjoyed our visit so far to the Ninth Congressional District of Georgia.

I want to say that I first met Mr. Jenkins a number of years ago. In recognition of his great talents, he was assigned to the Committee on Ways and Means when he first came to Congress. That is an honor that has not been bestowed on many people in the whole history of the country. He is a very energetic, and I believe very effective Congressman. And I want to say, Ed, to you and to your staff who have been so gracious to us and so helpful to us here in Helen, the alpine area of Georgia and the alpine area of the United

States, we appreciate what you have done. Do you want to say anything before we start?

Mr. **Jenkins**. Yes. Mr. Chairman, let me take a couple of minutes to express my appreciation, first of all, to the committee and to you as chairman for agreeing to come into this part of Georgia and commence the textile hearings. I know as we travel throughout the States of Alabama and the Carolinas and into other textile States that we are going to find a very similar pattern as exists in my congressional district.

In addition to that, I want to express my appreciation to the people who are involved in the apparel, textile industries, the employees, many of whom are here today. I want this panel to know that I know these people well, coming from the mountains of this district. These people are hard-working, good employees, good Americans, who simply want the opportunity to earn a decent living, to rear their families in a decent manner. That is all that they have ever sought. I express my appreciation to all of the employees of the textile industry for your interest in showing up here.

To each member of the committee, I want to say thank you for taking time out from your break when you could be home, to come into the textile areas to look at the problems we face. Thank you very much, Mr. Chairman.

Chairman **Gibbons**. Thank you. Let me first introduce the Members of Congress who are here with me on this occasion. To my left is Mr. Frenzel. Mr. Frenzel is the ranking Republican on our committee. He is from Minnesota, and has served a great many years in the Congress with great distinction.

Mr. Don Pease, from Lorain, OH, a Democrat, has been a member of our committee for a number of years. He comes from the steel and automobile making area of the United States which, as you know, has had some serious problems with foreign competition.

On my far left is Mr. Richard Schulze. He is from Pennsylvania. He has a lot of steel making in his area as well as a lot of other industrial operations. We always kid him about mushrooms, but mushrooms got taken over by foreign competition, and now he has got other problems in this area.

And on my right, far right, is Mr. Anthony. Mr. Anthony is from Arkansas. He is one of the newer members of our committee, although he has been on it 4 or 5 years now. He represents some of the agricultural sectors and also has a significant amount of textiles and garment workers in his area.

We are pleased to be here with you today. There are a few seats up in the front of the room for those of you who find it necessary to stand in the back. We would welcome you to come forward and use these seats. Let's get started now.

We have first a panel of witnesses representing the Governor and the State of Georgia. On this panel are Mr. Joe Tanner, the commissioner of the Department of Labor; Mr. George Berry, the commissioner of the Department of Industry and Trade, and Mr. Jim Higdon, commissioner, Georgia Department of Community Affairs.

Mr. Tanner, you appear first on the list, so we will let you lead off.

STATEMENT OF JOE D. TANNER, COMMISSIONER, GEORGIA DEPARTMENT OF LABOR, ACCOMPANIED BY MILTON MARTIN, DIRECTOR OF LABOR INFORMATION SYSTEMS, STATE OF GEORGIA

Mr. **Tanner**. Thank you very much, Mr. Chairman. It is a real pleasure for the three of us to be here today representing the State of Georgia and Gov. Joe Frank Harris. My name is Joe Tanner. I am commissioner of the Georgia Department of Labor.

I have submitted testimony for the record, and I am not going to bore you by reading it to you. What I would like to do is to make some brief comments and some additional information that is not contained within that testimony.

Chairman **Gibbons**. Mr. Tanner, let me say to you, and let me say to all the other witnesses who appear here today, if you have written statements, be assured that without objection those entire written statements will appear in the record as if delivered and will follow your summary.

Mr. **Tanner**. Thank you very much.

I also asked Milton Martin, who is director of labor information systems for the State of Georgia to join me.

The Georgia civilian labor force stands at a little over 2.7 million people. We have employed about 2.6 million individuals. Unemployed, we have about 165,000 individuals, and our employment rate in Georgia stands very low, at about 6 percent. Manufacturing jobs, we stand at about 550,000 manufacturing jobs. About one-third of the total manufacturing jobs in this State are textile and apparel. Apparel accounts for nearly 73,000 jobs according to the information that we have available to us, while textiles account for slightly over 100,000 jobs. The combined payroll of the apparel and textile industry in this State is about $2.4 billion.

In a third of Georgia's 159 counties——

Chairman **Gibbons**. Mr. Tanner, the people at the rear and over to the side of the room are having a little trouble hearing you. The microphone is not on.

Mr. **Tanner**. I don't believe it is on.

Chairman **Gibbons**. It was on for a while. It is not just Georgia microphones that give us trouble. It is microphones all over the world, I'm afraid.

Mr. **Tanner**. Yes, sir, in high technology one of the things that we need to improve is public address systems. By the way, high technology is not going to account for that many jobs for Georgia or as a matter of fact, for the Nation in the future, in our opinion.

OK, is that better?

Why don't I just continue, Mr. Chairman. I will try to speak louder.

Chairman **Gibbons**. All right, perhaps if you stand over here at the side of the room until we get the microphone system repaired, and then speak out in this direction, then everyone can hear you, and we can hear you.

Mr. **Tanner**. Thank you very much.

If you look at the trends and the information that we have available to us in the Georgia Department of Labor, we believe that the textile industry in this State peaked out in 1973 at about 120,000 jobs with the apparel industry peaking out at about 75,000 jobs.

If you look at the information that is now available to us, it does not show in the long term, the long-term trend information, really that alarming a figure. For those of you on the committee, if you will refer to page 8, you will get the trend information which has been charted out by members of my staff.

But I want to point out to you that this trend information, in my opinion, does not tell the total or the true story. In the first place, the floor covering mills, that part of the textile industry, frankly, is doing very fine at this point. And that counts for about 31,000 of the slightly over 100,000 jobs in the textile industry.

The real concern that we have in textile and apparel is just now beginning to show, and you can see that on pages 13 through 17, and that is the jobs lost since 1984. And I want to say to you that we believe these figures are fairly conservative. We think that as a matter of fact the jobs lost were probably even greater than those that we have reported to us.

Since Janaury 1, 1984, until today, in textiles and apparel, we have lost 5,629 jobs. I suspect that that number is low, but the real point that I want to make to you is that since January 1, 1985, we have lost 3,327 of those jobs. So, in the first 2 months of 1985, you can see that we lost more jobs than we lost in the entire year of 1984.

The unemployment claims information which we have verifies this alarming trend. This information is not contained in the package, and I will send it to you later. We look at the week in which the 12th day appears of each month. In 1984, from Janaury of the 12th day, the week of the 12th day, we had 2,804 people in the textile and apparel industries drawing unemployment compensation.

In the same week, in 1985, we had 4,130 people drawing unemployment compensation, and the same thing is true for the apparel industry. What the figure showed to us is that comparing the same week of January 1984 to the same week of January 1985, we have had roughly a 50-percent increase in unemployment claims.

We believe that unemployment claims are the most reliable current data available to us and they show an extremely alarming trend in the textile and apparel industry in this State. Finally, in closing, I want to say to you that if you use an example such as Dodge County and Eastman, GA, down in the southern part of the State, what you see becomes even more alarming because they have a total of 1,262 production or manufacturing jobs in that community. One closing of textile mill cost them roughly 30 percent of all those manufacturing jobs.

And the final thing that I would like to say to you is this, there are some people who sit, I believe, in an ivory tower and think that we are all going to make a living by scrambling eggs for each other, selling hamburgers to each other, or pressing each other's pants. I don't pretend to be that great of an expert because I am new to this job, but I do know this.

You must have manufacturing and production type jobs. You must have them to support service jobs when you lose apparel and textile jobs in the small communities in the State or large communities. You also are going to lose service jobs. The acceleration of the unemployment rate with these plant closings will become even more dramatic in the coming months. Thank you very much.

Chairman GIBBONS. Thank you, Commissioner Tanner.

[The prepared statement follows:]

STATEMENT OF J. HENRY WALKER III, PRESIDENT GEORGIA TEXTILE MANUFACTURERS ASSOCIATION

FROM THE BEGINNING OF GEORGIA'S INDUSTRIAL DEVELOPMENT, TEXTILES DOMINATED MANUFACTURING EMPLOYMENT. DURING COLONIAL TIMES, SILK WAS GROWN AND PROCESSED ALONG THE GEORGIA COAST. COTTON WAS FIRST GROWN IN THE STATE IN 1798. IN 1811, THE FIRST COMMERCIALLY SUCCESSFUL COTTON MILL IN THE SOUTH WAS BUILT IN WILKES COUNTY, GEORGIA. BY 1825, GEORGIA LED THE WORLD IN THE PRODUCTION OF COTTON FIBER.

BY 1850, THERE WERE 35 COTTON MILLS AND THREE WOOLEN MILLS IN THE STATE. BECAUSE THEY WERE WATER-POWERED, THEY WERE LOCATED PRIMARILY ALONG THE FALL LINE WHERE THE INCREASED STREAM GRADIENT PROVIDED EXCELLENT MILL SITES. THE CITIES OF AUGUSTA, MACON, AND COLUMBUS, ALL LOCATED ALONG THE FALL LINE, BECAME AND REMAIN MAJOR TEXTILE PRODUCTION CENTERS.

BY 1900, MORE THAN A MILLION TEXTILE SPINDLES WERE IN PLACE THROUGHOUT THE STATE. THEY CONSUMED MORE THAN 300,000 BALES OF COTTON ANNUALLY.

THE NEXT 50 YEARS WERE MARKED BY A SERIES OF EVENTS WHICH FOREVER CHANGED THE STATE'S ECONOMY: TWO WORLD WARS, THE COUNTRY'S WORST ECONOMIC DEPRESSION, AND A BOLL WEEVIL INFESTATION THAT DEVASTATED GEORGIA'S COTTON CROP, THE STATE'S LARGEST CASH CROP. FARMING, WHICH HITHERTO HAD BEEN RELATIVELY PROFITABLE, NOW PROVIDED ONLY A SUBSISTENCE LEVEL OF EXISTENCE FOR MANY AGRICULTURAL WORKERS. THEY WERE, THEREFORE, ATTRACTED TO HIGHER PAYING MANUFACTURING JOBS IN URBAN AREAS, BOTH IN GEORGIA AND ELSEWHERE, AND BEGAN THE EXODUS FROM THE FARM THAT WAS TO CHANGE GEORGIA FROM A RURAL STATE WITH AN AGRARIAN ECONOMY TO AN INDUSTRIALIZED STATE WITH A DIVERSE MIX OF BUSINESSES.

In the meantime, the textile industry continued its southward movement for a number of reasons, not the least of which were the area's large labor pool and cheaper wage rates. As a result, textile employment increased from 31,400 in 1910 to 85,400 in 1940.

During the post-World War II period, the apparel industry took its place with textiles as one of Georgia's most important sources of jobs. Total manufacturing employment increased by 79.2 percent from 1947 to 1973, the year in which both textile and apparel employment peaked. During the same period, textile employment grew only 15.3 percent while employment in the apparel industry increased 181.5 percent.

Major declines in these industries in 1975 and 1982 coincided with national recessions. The apparel industry has recovered to within a few hundred of the 1973 peak, but the textile industry has not rebounded as it did following other recessions. Although total manufacturing employment grew 10.3 percent from 1973 to 1984 and apparel employment is off by less than half of one percent, employment in textile mills is down by 15.5 percent.

Employment in both textiles and apparel is projected to continue to decline through 1990.

It is worth noting that, although employment in both textiles and apparel has declined in terms of actual numbers, Georgia's share of employment in both industries relative to the U. S. total has increased. In 1973, 12.4 percent of all textile employment was located in Georgia; by 1984, the percentage had risen to 14.2. During the same period, the state's share of apparel employment rose from 5.2 to 6.3 percent. More than 58 percent of the nation's textile employment is located in three Southern states: Georgia, North Carolina, and South Carolina.

ALTHOUGH THE COMBINED TEXTILE AND APPAREL INDUSTRIES ACCOUNT FOR ALMOST A THIRD OF ALL MANUFACTURING JOBS IN THE STATE, THEY ACCOUNT FOR LITTLE MORE THAN SEVEN PERCENT OF TOTAL NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT IN GEORGIA. THESE FIGURES DO NOT, HOWEVER, CONVEY THE IMPORTANCE OF THESE INDUSTRIES TO LOCAL ECONOMIES. IN ONE-THIRD OF GEORGIA'S 159 COUNTIES, THESE TWO INDUSTRIES PROVIDED MORE THAN 20 PERCENT OF THE JOBS. ALL BUT SEVEN OF THESE COUNTIES ARE IN RURAL AREAS WITH LIMITED JOB OPPORTUNITIES. IN 12 COUNTIES, BETWEEN 30 AND 39 PERCENT OF JOBS WERE IN TEXTILES AND APPAREL; IN 11 COUNTIES, 40 TO 49 PERCENT; AND MORE THAN HALF THE JOBS IN BANKS AND MURRAY COUNTIES WERE DEPENDENT ON THESE TWO INDUSTRIES.

A LOOK AT UNEMPLOYMENT RATES IN COUNTIES DOMINATED BY TEXTILES REVEALS THAT THEY WERE CONSISTENTLY HIGHER IN 1984 THAN THE RATE FOR THE STATE AS A WHOLE. THIS TREND IS CONTINUING IN THE EARLY MONTHS OF 1985. THE SAME IS NOT TRUE IN THE THREE COUNTIES HAVING THE HEAVIEST CONCENTRATIONS OF APPAREL JOBS. ONLY HARALSON COUNTY HAS HAD UNEMPLOYMENT RATES CONSISTENTLY HIGHER THAN THE STATE AVERAGE; FULTON AND CARROLL COUNTY RATES HAVE GENERALLY BEEN LOWER.

THE MAJORITY OF TEXTILE EMPLOYMENT IS CONCENTRATED IN THE NORTHERN HALF OF THE STATE, COINCIDING WITH THE HISTORICAL DEVELOPMENT OF THIS INDUSTRY. THE HEAVIEST CONCENTRATION IS IN NORTHWEST GEORGIA, WHICH IS HOME TO DOZENS OF FLOOR COVERING MILLS. ALMOST 60 PERCENT OF THE NATION'S TOTAL EMPLOYMENT IN THAT INDUSTRY IS LOCATED IN GEORGIA.

APPAREL PLANTS, WHICH TEND TO BE BOTH SMALLER AND NEWER THAN TEXTILE MILLS, ARE MORE WIDELY DISTRIBUTED. THEY ARE LOCATED IN 133 OF THE 159 COUNTIES.

In Georgia's textile and apparel industries, cotton weaving mills have suffered the most serious declines in recent years. Between 1973 and 1984, more than 11,000 jobs, or 35 percent of the 1973 labor force in that industry, were lost. Most of the decline has occurred since 1980. Most of these facilities are old, often dating from the last half of the Nineteenth Century or the early Twentieth Century. They are labor intensive, averaging more than 400 workers per plant. The fact that the average size of the labor force in these facilities dropped only slightly from 1973 to 1984 seems to indicate that little modernization of equipment has occurred. Plant modernization would not, however, solve the employment problems in this industry because modern equipment is largely computerized and requires fewer operators.

It was postulated that much of the decline in cotton weaving mills could be attributed to the increasing use of synthetic fibers, but available information does not support this conclusion. Although the rate of decline is much less than in cotton mills, employment in synthetic fiber mills has also decreased.

By contrast, the carpet industry - the state's largest textile industry in terms of total employment - appears to be relatively healthy. Although employment declined about nine percent from 1973 to 1984, most of the drop occurred before 1980. Employment fell sharply during the 1982-83 recession because of declines in construction and automobile manufacturing, the two largest users of carpeting, but rebounded strongly during 1984.

THE CARPET INDUSTRY IS MUCH LESS LABOR INTENSIVE THAN SOME OF THE OTHER TEXTILE INDUSTRIES, PERHAPS BECAUSE ABOUT 80 PERCENT OF MILLS ARE LESS THAN 20 YEARS OLD, AND THEREFORE, MODERNLY EQUIPPED. CARPET MILLS AVERAGE SLIGHTLY MORE THAN 100 WORKERS PER ESTABLISHMENT. DURING THE PERIOD 1973 TO 1984, THE NUMBER OF CARPET MILLS IN THE STATE ACTUALLY INCREASED MODESTLY - FROM 285 TO 295. MORE THAN 95 PERCENT OF WORKERS IN THIS INDUSTRY ARE ENGAGED IN MAKING TUFTED CARPETS AND RUGS.

ALTHOUGH THE APPAREL INDUSTRY HAS HAD SOME DIFFICULT PERIODS - GENERALLY COINCIDING WITH RECESSIONARY YEARS WHICH DEPRESSED THE ENTIRE ECONOMY - STRONG GROWTH DURING 1984 BROUGHT EMPLOYMENT TO WITHIN 300 OF THE 1973 LEVEL. THE GAIN WAS MOST NOTABLE IN WOMEN'S OUTERWEAR WHERE EMPLOYMENT ROSE BY 1,800, OR 18.3 PERCENT FOR THE ELEVEN YEAR PERIOD. IT MAY REASONABLY BE SURMISED THAT THIS GAIN REFLECTS, IN LARGE PART, WOMEN'S INCREASING PRESENCE IN THE LABOR FORCE AND THEIR CORRESPONDING NEED FOR SUITABLE WARDROBES.

EMPLOYMENT AND UNEMPLOYMENT LEVELS VARY A GREAT DEAL FROM MONTH TO MONTH IN BOTH TEXTILES AND APPAREL. PART OF THE VARIANCE IS SEASONAL AND MAY BE TIED TO NORMAL BUSINESS CYCLES. THESE TWO INDUSTRIES, HOWEVER, HAD MORE THAN THEIR PRO RATA SHARE OF UNEMPLOYMENT INSURANCE CLAIMANTS WHO REPORTED NO EARNINGS DURING THEIR PERIODS OF JOBLESSNESS. ALTHOUGH TEXTILES AND APPAREL AVERAGED 7.6 PERCENT OF GEORGIA'S TOTAL LABOR FORCE DURING THE FIRST THREE QUARTERS OF 1984, CONTINUING CLAIMS FOR THE TWO INDUSTRIES WERE NEVER THAT LOW. IN THE MONTHS JANUARY THROUGH MAY 1984, CONTINUING CLAIMS FOR TEXTILES AND APPAREL COMBINED RANGED FROM 15.0 PERCENT TO 16.3 PERCENT. DURING THE LAST FOUR MONTHS OF 1984 AND IN JANUARY 1985, THE PERCENTAGE WAS CONSISTENTLY MORE THAN 20 PERCENT OF THE STATEWIDE TOTAL FOR ALL INDUSTRIES.

A COMPARISON OF JANUARY 1984 AND JANUARY 1985 CLAIMANT FIGURES SHOWS A SHARP UPWARD TREND FOR BOTH INDUSTRIES. FOR APPAREL, THE RATE OF INCREASE WAS 27.5 PERCENT; FOR TEXTILES, IT WAS 50.3 PERCENT. BY CONTRAST, STATEWIDE CLAIMS FOR ALL INDUSTRIES ROSE ONLY .6 PERCENT DURING THE SAME PERIOD.

BOTH TEXTILES AND APPAREL ARE TRADITIONALLY LOW-PAYING INDUSTRIES, AND THE VAST MAJORITY OF ALL JOBS ARE SEMI-SKILLED. FOUR OUT OF FIVE EMPLOYEES ARE EITHER PRODUCTION OR MAINTENANCE WORKERS. IN THE APPAREL INDUSTRY, ALMOST 57 PERCENT OF THE WORKERS ARE SEWING MACHINE OPERATORS. IN TEXTILES, THE SPECIFIC OCCUPATIONAL MIX IS CONSIDERABLY MORE VARIED, BUT IN BOTH INDUSTRIES, MOST WORKERS REQUIRE THREE TO SIX MONTHS OF ON-THE-JOB TRAINING OR EXPERIENCE TO REACH AVERAGE PERFORMANCE LEVELS. MANY OF THE JOBS REQUIRE ONLY THIRTY DAYS TO THREE MONTHS FOR TRAINING, AND A NUMBER NECESSITATE FEWER THAN THIRTY DAYS.

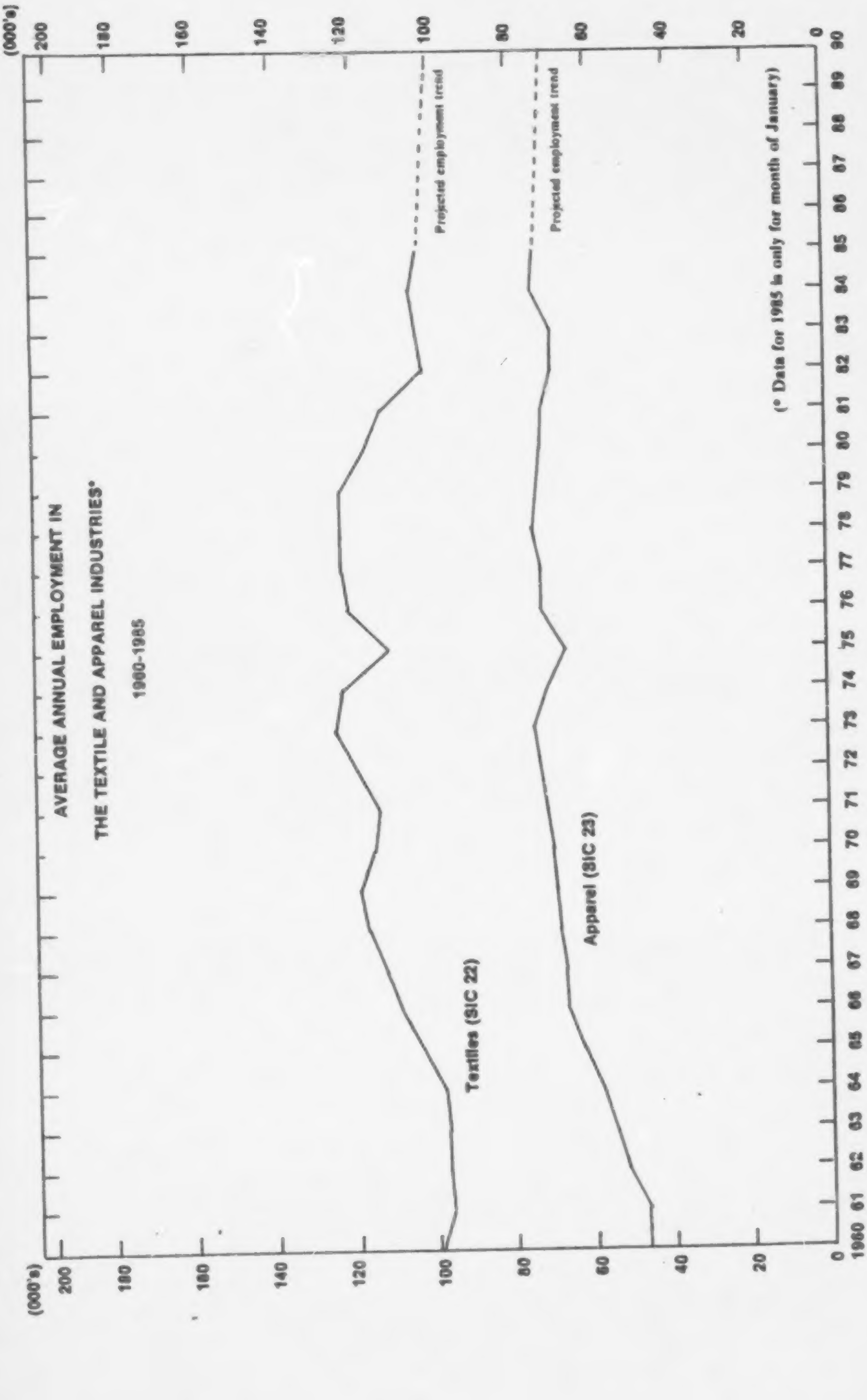
GEORGIA'S ECONOMY IS HEALTHY. THE UNEMPLOYMENT RATE HAS REMAINED WELL BELOW THE NATIONAL AVERAGE FOR SEVERAL YEARS. THE STATE IS HOME TO A DIVERSE MIX OF INDUSTRIES THAT COMPLEMENT AND STRENGTHEN EACH OTHER. A SLOWDOWN IN ONE INDUSTRY MAY BE PAINFUL, BUT IT IS NOT CATACLYSMIC TO GEORGIA. YET THE SAME CANNOT BE SAID FOR ALL OF THE COMPONENTS OF THE STATE. THE CLOSING OR CURTAILMENT OF A MAJOR EMPLOYER HAS HAD A DEVASTATING IMPACT ON THE ECONOMY OF MANY A SMALL GEORGIA COMMUNITY. TOGETHER, THE TEXTILE AND APPAREL INDUSTRIES PROVIDE JOBS FOR ALMOST 200,000 PEOPLE IN THIS STATE. THEIR ANNUAL PAYROLL EXCEEDS $2.4 BILLION. THE WELFARE OF THESE INDUSTRIES IS IMPORTANT TO US ALL.

TEXTILE PLANT EMPLOYMENT IN THE SOUTHEAST AND U. S.
(1984 Annual Averages)

	Number Employed	Percent of Southeast	Percent of U. S.
Alabama	39,300	7.6	5.2
Florida	2,600	.5	0.3
Georgia	105,700	20.4	14.0
Kentucky	5,800	1.1	0.8
Mississippi	5,900	1.1	0.8
North Carolina	220,200	42.5	29.3
South Carolina	113,000	21.8	15.0
Tennessee	25,600	5.0	3.4
Southeast Total	518,100	100.0	68.8
U. S.	752,800		

APPAREL EMPLOYMENT IN THE SOUTHEAST AND U. S.
(1984 Annual Averages)

	Number Employed	Percent of Southeast	Percent of U. S.
Alabama	55,000	12.5	4.6
Florida	33,700	7.7	2.8
Georgia	74,600	17.0	6.2
Kentucky	26,500	6.0	2.2
Mississippi	38,500	8.8	3.2
North Carolina	92,300	21.0	7.7
South Carolina	49,700	11.3	4.1
Tennessee	68,900	15.7	5.7
Southeast Total	439,200	100.0	36.5
U. S.	1,201,500		



AVERAGE ANNUAL EMPLOYMENT IN THE TEXTILE AND APPAREL INDUSTRIES*

1960-1985

(* Data for 1985 is only for month of January)

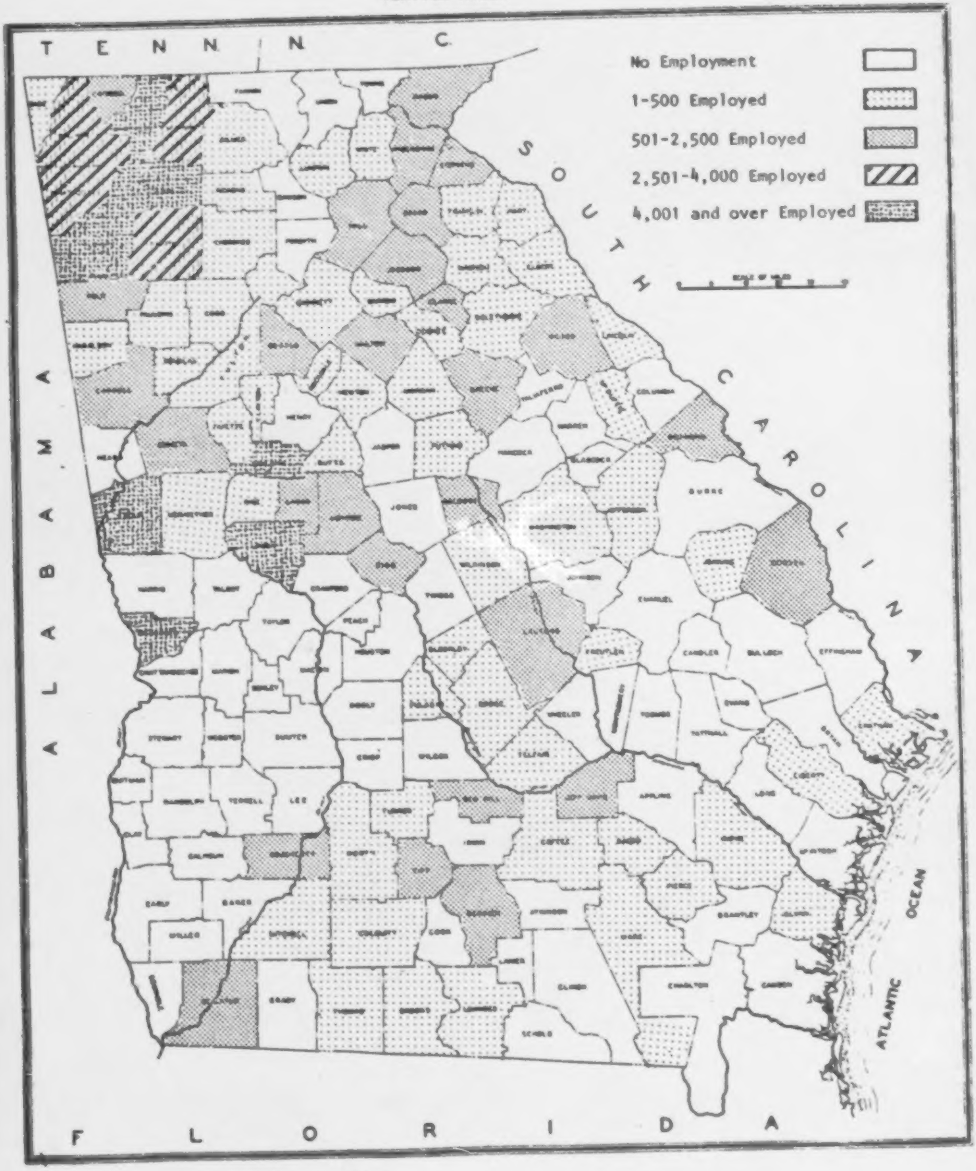
UNEMPLOYMENT RATES IN COUNTIES HAVING HIGH CONCENTRATIONS OF EMPLOYMENT IN TEXTILES

	Unemployment Rates		
	1984 Average	Jan. 1985	Feb. 1985
State of Georgia	6.0	6.0	6.1
Bartow	8.5	9.1	9.3
Chattooga	9.6	12.4	13.3
Floyd	7.5	7.6	9.5
Gordon	7.3	8.4	8.7
Murray	7.4	8.8	9.0
Muscogee	6.4	6.0	6.8
Spalding	8.0	6.9	7.7
Troup	6.6	6.6	7.3
Upson	8.4	8.9	8.3
Walker	6.9	7.6	6.8
Whitfield	6.8	7.9	7.6

UNEMPLOYMENT RATES IN COUNTIES HAVING HIGH CONCENTRATIONS OF EMPLOYMENT IN APPAREL

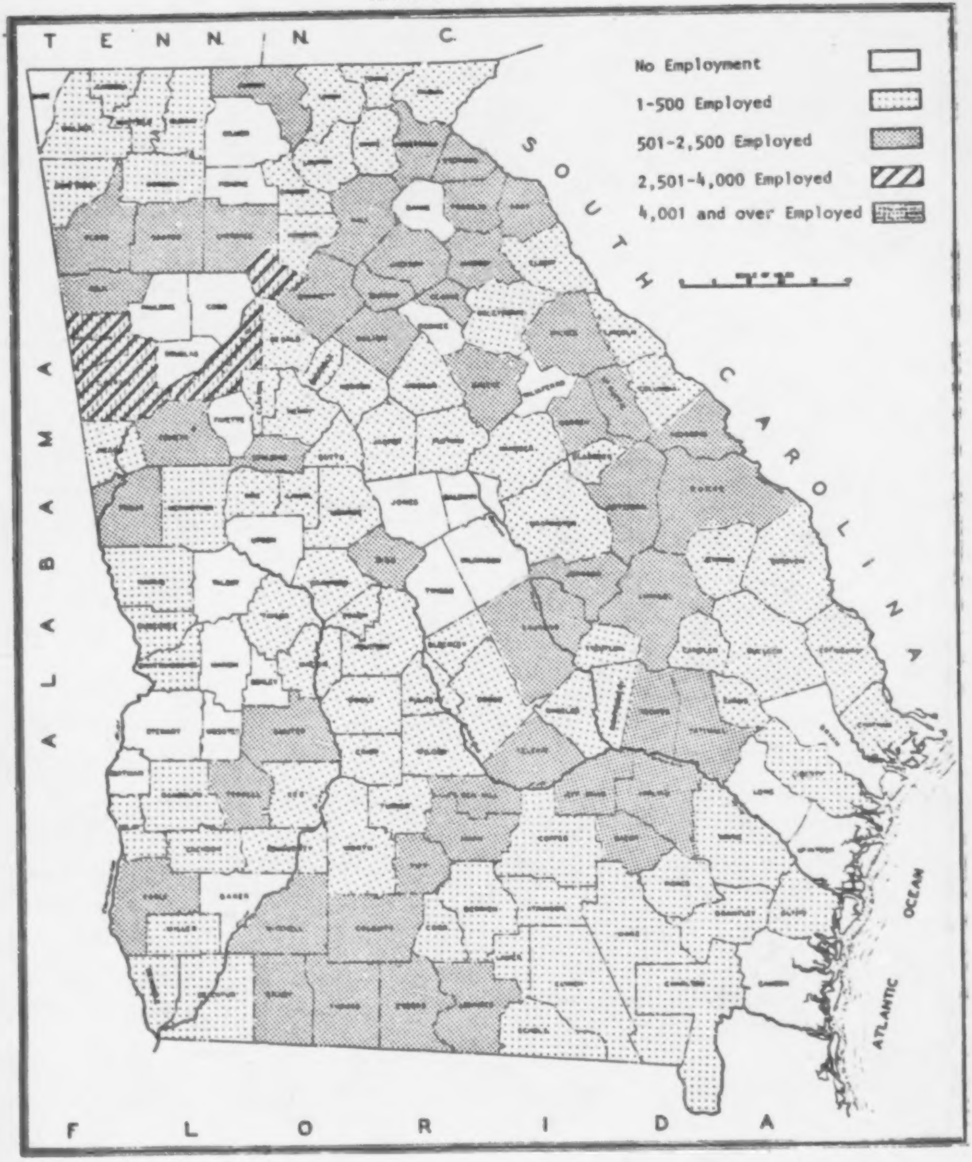
	Unemployment Rates		
	1984 Average	Jan. 1985	Feb. 1985
State of Georgia	6.0	6.0	6.1
Haralson	7.2	7.8	8.9
Carroll	5.6	6.2	5.6
Fulton	6.0	5.5	5.8

EMPLOYMENT IN GEORGIA'S TEXTILE MILLS


No Employment
1-500 Employed
501-2,500 Employed
2,501-4,000 Employed
4,001 and over Employed
TENN. N. C.
SOUTH CAROLINA
ALABAMA
FLORIDA
ATLANTIC OCEAN

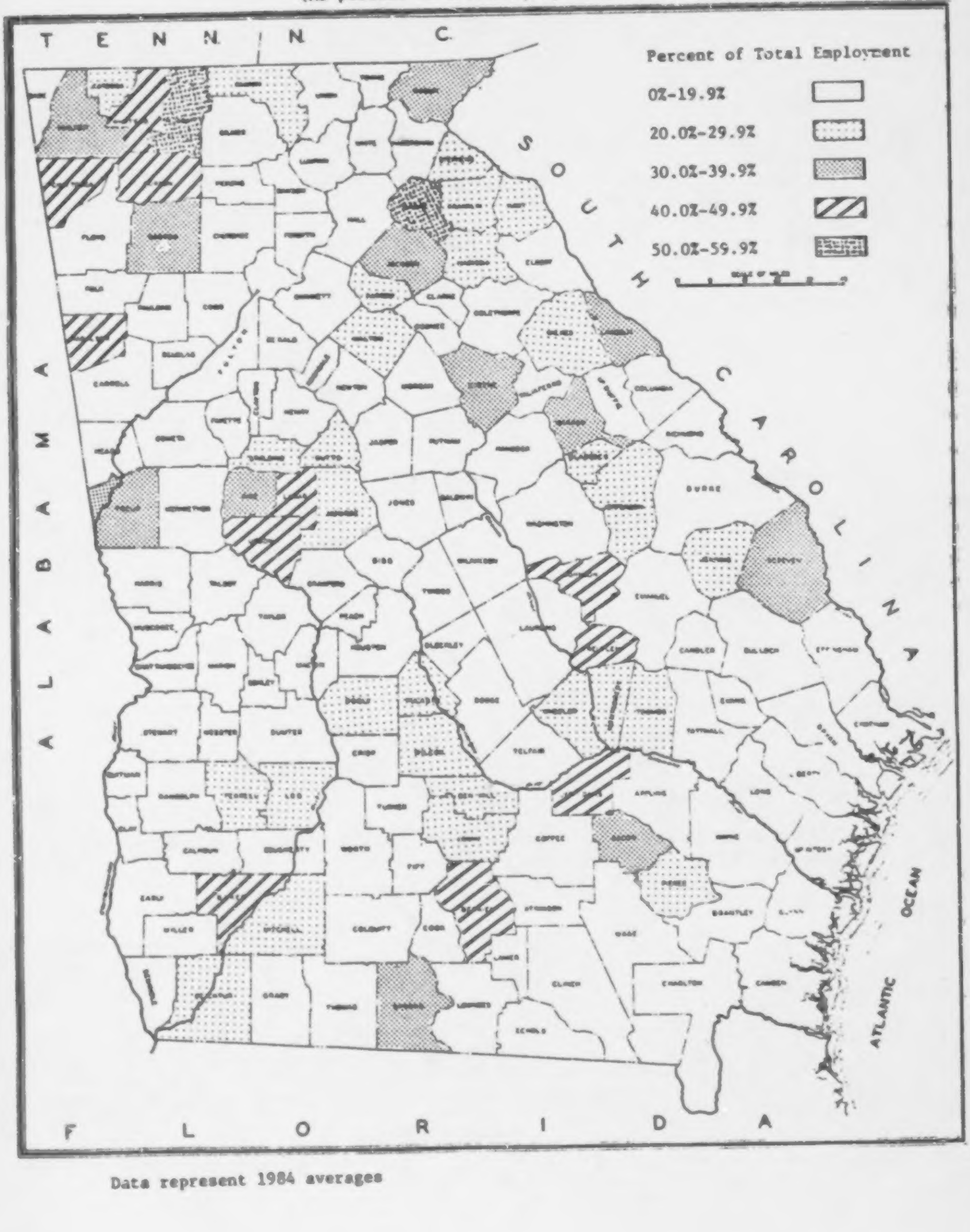
Data represent 1984 averages

EMPLOYMENT IN GEORGIA'S
APPAREL INDUSTRY


TENN.
N.C.
No Employment
1-500 Employed
501-2,500 Employed
2,501-4,000 Employed
4,001 and over Employed
SOUTH CAROLINA
ALABAMA
ATLANTIC OCEAN
FLORIDA

Data represent 1984 averages

COUNTIES IN GEORGIA WITH 20 PERCENT OR GREATER
CONCENTRATION OF TEXTILE/APPAREL EMPLOYMENT
(As percent of total employment)


T E N N. N. C.
Percent of Total Employment
0%-19.9%
20.0%-29.9%
30.0%-39.9%
40.0%-49.9%
50.0%-59.9%
SOUTH
CAROLINA
ALABAMA
FLORIDA
ATLANTIC
OCEAN

Data represent 1984 averages

PLANT CLOSINGS IN TEXTILES AND APPAREL - 1984

TEXTILES

Company Name	Date of Closing	Location By County	Jobs Lost
Pride Yarn Processors, Inc.	01-84	Bartow	79 (P)
Adbac Finishers	03-84	Whitfield	53
Indian Springs Finishing Co.	06-84	Butts	214 (P)
Georgia Synthetics	06-84	Elbert	225
Needlecraft Corp. of America	09-84	Whitfield	275
Dale Yarn Sales	09-84	Whitfield	11
Signal Knitting Mills	09-84	Meriwether	39

APPAREL

Company Name	Date of Closing	Location By County	Jobs Lost
Gabestan Clothing	01-84	Haralson	48 (P)
Sunbelt Apparel	01-84	Paulding	86 (P)
The Bibb Company-Plant Laurel	02-84	Taylor	110
Empire Shirt Trimming Co., Inc.	03-84	Fulton	37
Soft Goods, Inc.	03-84	Catoosa	35 (P)
Siloam Industries, Inc.	06-84	Greene	153
Levi Strauss	06-84	Bibb	540 (P)

(P) Phased cutback, beginning date shown

Note: Listings represent available data only and are not necessarily exhaustive.

PLANT CLOSINGS IN TEXTILES AND APPAREL (Year-to-Date, 1985)

TEXTILES

Company Name	Date of Closing	Location By County	Jobs Lost
Mount Vernon Mills, Inc.	02-85	Gordon	160
Milliken & Co.-Manchester Plant	02-85	Meriwether	260 (P)
West Point Pepperell-Dixie Mill	03-85	Troup	133 (P)
West Point Pepperell-Grantville Mill	03-85	Coweta	142 (P)
Reeves Brothers, Inc.	03-85	Dodge	349
Milliken & Co.-Gainesville Mill	03-85	Hall	200 (P)

APPAREL

Company Name	Date of Closing	Location By County	Jobs Lost
Modern Manufacturing	01-85	Morgan	54
Statenville Industries	01-85	Echols	26
Jacque Jaunet	02-85	Walker	116 (P)
Waycross Sportswear	03-85	Ware	125
William Carter Company	03-85	Spalding	60
Colbert Manufacturing Company	03-85	Madison	80
Chalk Line, Inc.	03-85	Carroll	70
Comer/Monarch Manufacturing Co.	04-85	Madison	300

(P) Phased cutback, beginning date shown

Note: Listings represent available data only and are not necessarily exhaustive.

MASS LAYOFFS IN TEXTILES AND APPAREL AFFECTING 100 OR MORE EMPLOYEES

TEXTILE INDUSTRY - 1984

Company Name	Date of Layoff	Location By County	Jobs Lost
West Point Pepperell-Dixie Mill	03-84	Troup	144 (P)
Shaw Industries	06-84	Ben Hill	151
Milliken & Co.-Manchester Plant	10-84	Meriwether	102 (P)

TEXTILE INDUSTRY (Year-to-Date, 1985)

Company Name	Date of Layoff	Location By County	Jobs Lost
Bibb Manufacturing-Columbus	01-85	Muscogee	300 (P)
West Point Pepperell-LaGrange	01-85	Troup	156
Swift Textiles	02-85	Muscogee	132
Thomaston Mills, Inc.	02-85	Spalding/Pike	200
Briarcliff Mills	03-85	Fulton	100

APPAREL INDUSTRY (Year-to-Date, 1985)

Company Name	Date of Layoff	Location By County	Jobs Lost
Bridan Industries	03-85	Carroll	250
Kaiser Roth Hosiery	04-85	Cobb	114

(P) Phased cutback, beginning date shown

Note: Listings represent available data only and are not necessarily exhaustive. The available sources revealed no listings for Apparel in 1984.

NEW JOBS IN TEXTILES AND APPAREL - 1984

TEXTILES

Company Name	Location By County	Jobs Gained
KLM Fibre Products	Bartow	18
Frost Yarn, Inc.	Whitfield	25
Lawler Hosiery Mills	Carroll	50
New Elberta Mills	Elbert	30

APPAREL

Company Name	Location By County	Jobs Gained
McDonald Garment	Bacon	35
The Activewear Co., Inc.	Clarke	44
Ithaca-Lakeland Industries, Inc.	Lanier	188
Newton Manufacturing Corporation	Worth	92
Clinton Marine	Crisp	29
Baysport, Inc.	Greene	90
Clint's Outerwear	Coffee	40
Dyco Manufacturing Co.	McDuffie	46
Good Hope Manufacturing	Walton	53
H & W Sportswear	Hall	65
M & W Sportswear	Turner	N/A
Payback, Inc.	Hancock	80
Rockmart Manufacturing Co.	Polk	30
Scroll Fabrics	Cobb	22
R. L. Studdard & Son, Inc.	Washington	145

N/A - Not available

Note: Listings represent available data only, and are not necessarily exhaustive.

NEW JOBS IN TEXTILES AND APPAREL (Year-to-Date 1985)

TEXTILES

Company Name	Location By County	Jobs Gained
April Industries	Whitfield	10
Beaulieu of America	Whitfield	50
Bowen Manufacturing Co., Inc.	Troup	20
Consolidated Jet Printers	Whitfield	30
Couristan, Inc.	Whitfield	35

APPAREL

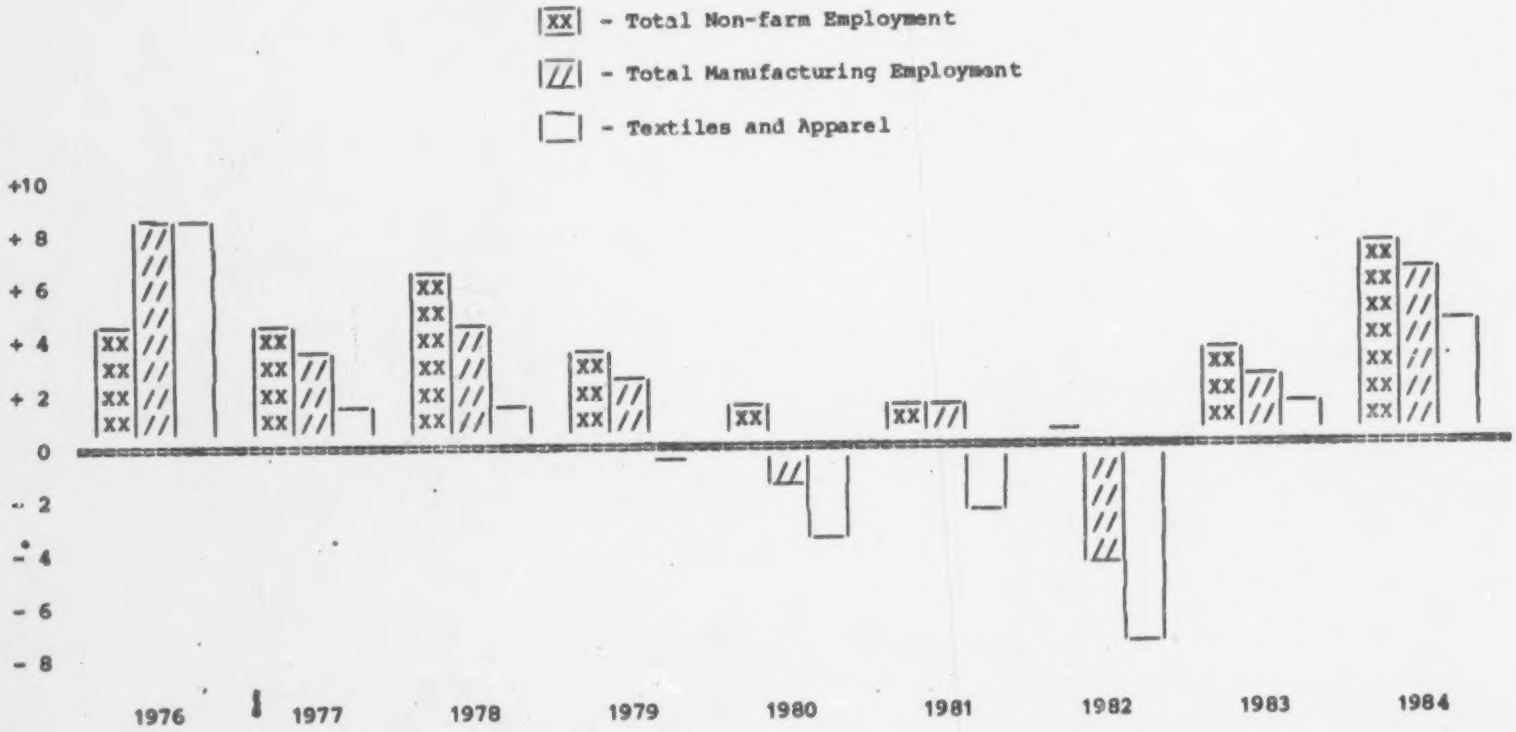
Company Name	Location By County	Jobs Gained
Adams Sportswear	Polk, Tennessee	300
Adrian Sportswear	Emanuel	50
Dexter Sportswear	Laurens	50
Jesup Manufacturing Co.	Wayne	80
Turner Manufacturing Co.	Haralson	N/A
Wilkes Brothers, Inc.	Clinch	125
Suburban Manufacturing Co.	Randolph	100

N/A - Not available

Note: Listings represent available data only and are not necessarily exhaustive.

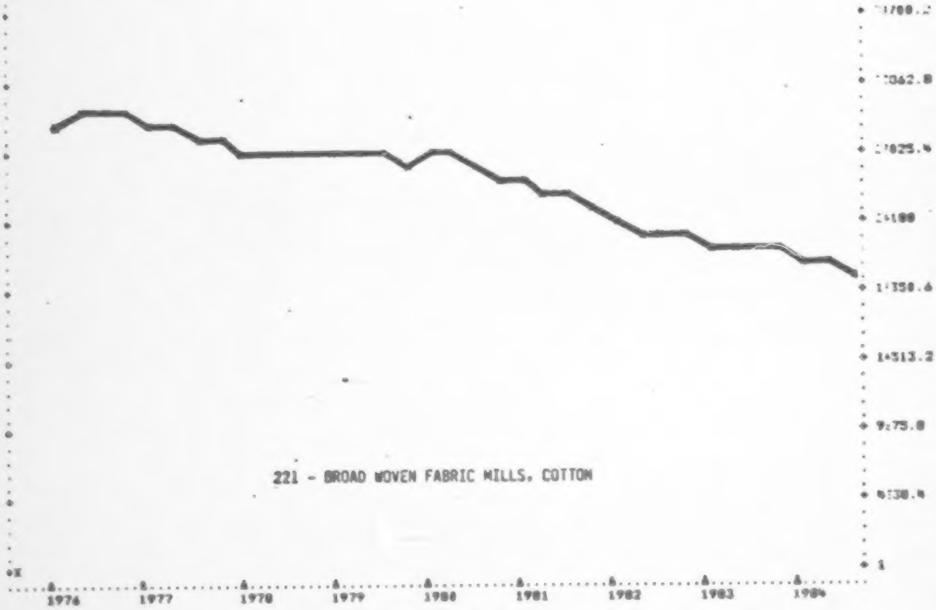
PERCENT CHANGE IN EMPLOYMENT - 1976 THROUGH 1984

(Percent changes in employment levels compared to prior year)

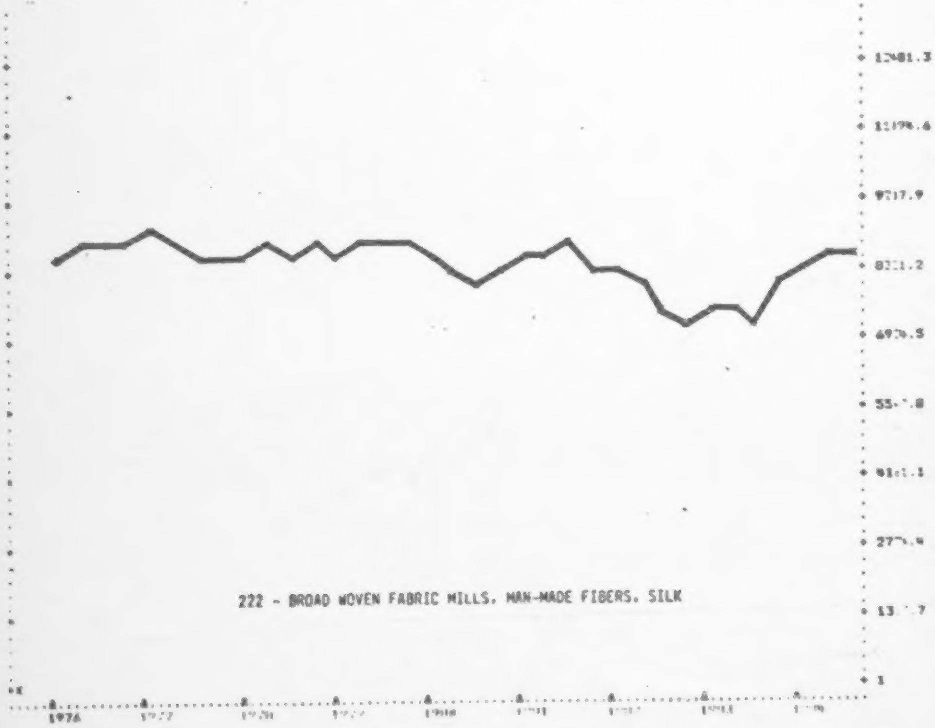


EMPLOYMENT IN TEXTILES AND APPAREL IN GEORGIA
(Average Annual Employment)

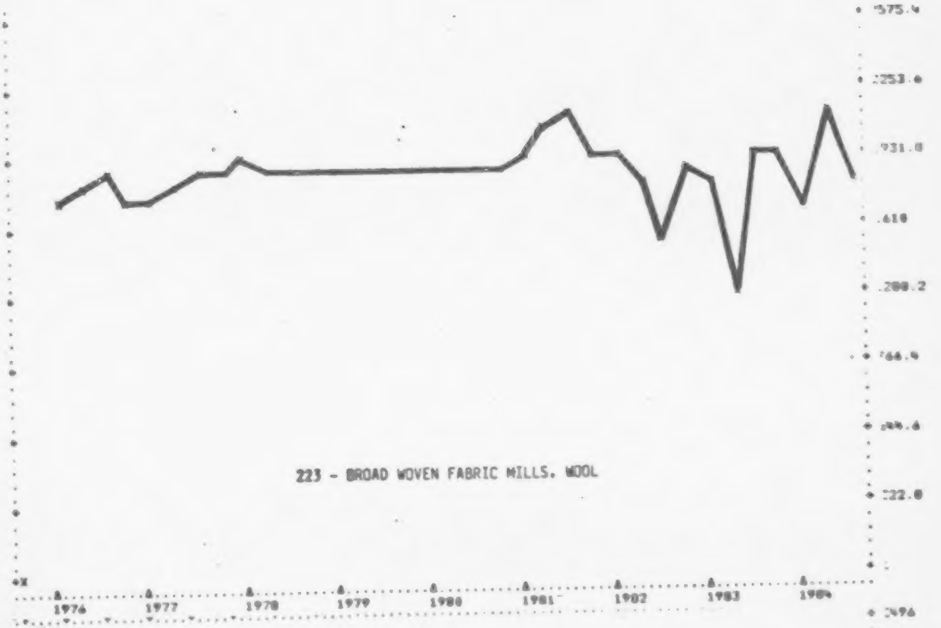
SIC	INDUSTRY	1976	1977	1978	1979	1980	1981	1982	1983	1984
22	Textile Mill Products	121,864	124,195	125,366	124,050	117,229	113,747	102,779	105,225	106,057
221	Broad Woven Fabric Mills, Cotton	32,058	30,769	29,452	29,189	28,737	26,511	24,123	22,872	21,304
222	Broad Woven Fabric Mills, Man-made Fibers, Silk	8,954	8,935	8,865	8,981	8,518	8,695	7,844	7,684	8,634
223	Broad Woven Fabric Mills, Wool	1,806	1,849	1,916	1,884	1,897	2,048	1,825	1,776	1,899
224	Narrow Fabrics & Other Smallwares Mills	1,543	1,466	1,277	1,020	921	779	695	771	833
225	Knitting Mills	7,938	8,254	8,979	8,692	9,207	9,890	8,956	9,137	8,605
226	Dyeing & Finishing Textiles	6,474	6,749	6,934	6,735	6,368	6,005	5,481	5,508	5,770
227	Floor Covering Mills	31,132	32,953	34,423	33,666	30,478	29,510	26,937	28,949	31,220
228	Yarn & Thread Mills	24,092	25,240	25,556	25,903	23,802	23,035	21,127	22,424	21,426
229	Misc. Textile Goods	7,867	7,980	7,964	7,980	7,301	7,274	5,791	6,104	6,366
23	Apparel & Other Finished Products	73,315	73,543	75,393	73,769	72,307	72,513	68,986	69,819	75,326
231	Men's, Youth's & Boys' Suits, Coats, Overcoats	5,915	6,481	6,957	6,197	5,825	6,081	5,605	5,489	5,579
232	Men's, Youth's & Boys' Furnishings, Work Clothes, Allied	33,961	33,853	34,343	34,151	34,148	33,422	32,630	33,443	36,378
233	Women's, Misses' & Juniors' Outerwear	9,873	10,361	11,091	11,457	10,770	11,241	10,735	10,701	11,585
234	Women's, Misses', Children's & Infants' Undergarments	9,155	9,010	9,004	7,703	7,654	7,980	7,615	7,670	8,087
235	Hats, Caps & Millinery	158	175	172	256	326	428	418	395	411
236	Girls', Children's & Infants' Outerwear	1,793	1,896	2,196	2,953	3,067	3,495	3,138	2,994	4,015
238	Misc. Apparel & Accessories	2,120	2,157	2,300	2,261	2,018	1,827	1,490	1,275	971
239	Misc. Fabricated Textile Products	10,340	9,610	9,330	8,791	8,519	8,039	7,355	7,852	8,300



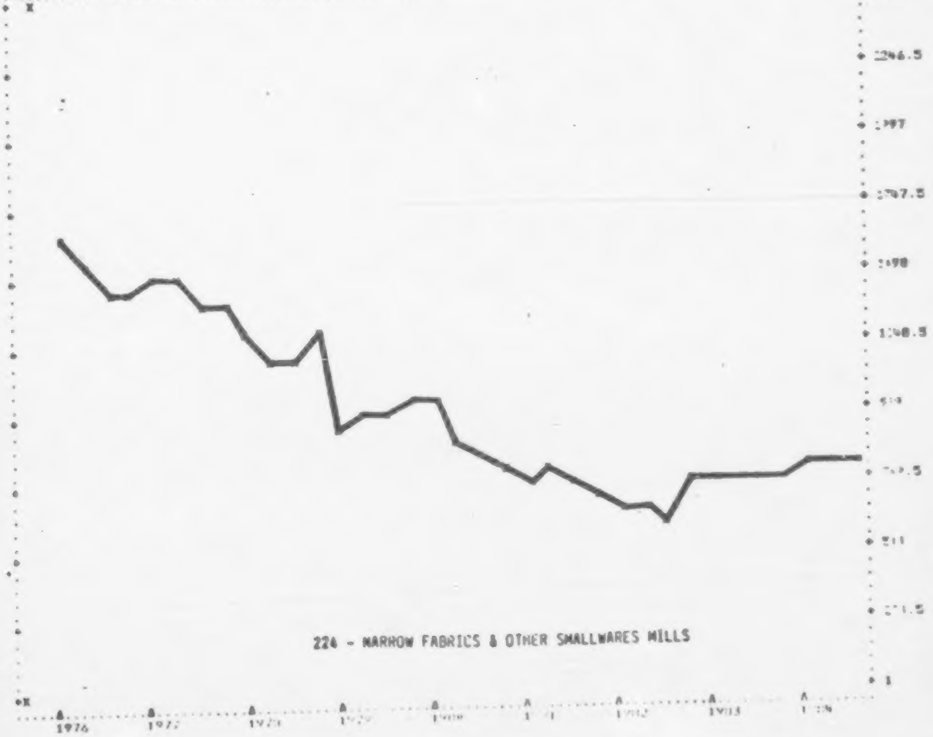
221 - BROAD WOVEN FABRIC MILLS, COTTON



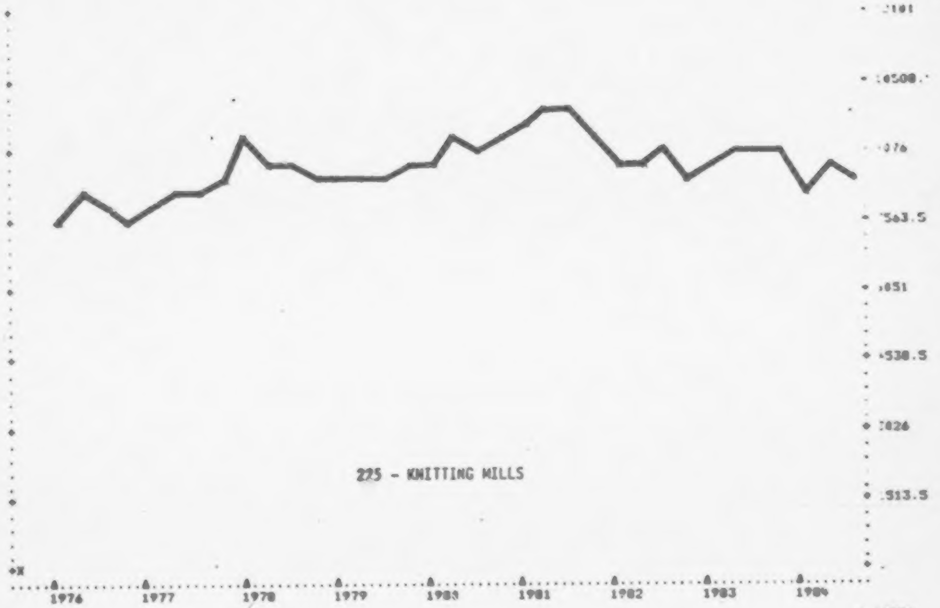
222 - BROAD WOVEN FABRIC MILLS, MAN-MADE FIBERS, SILK

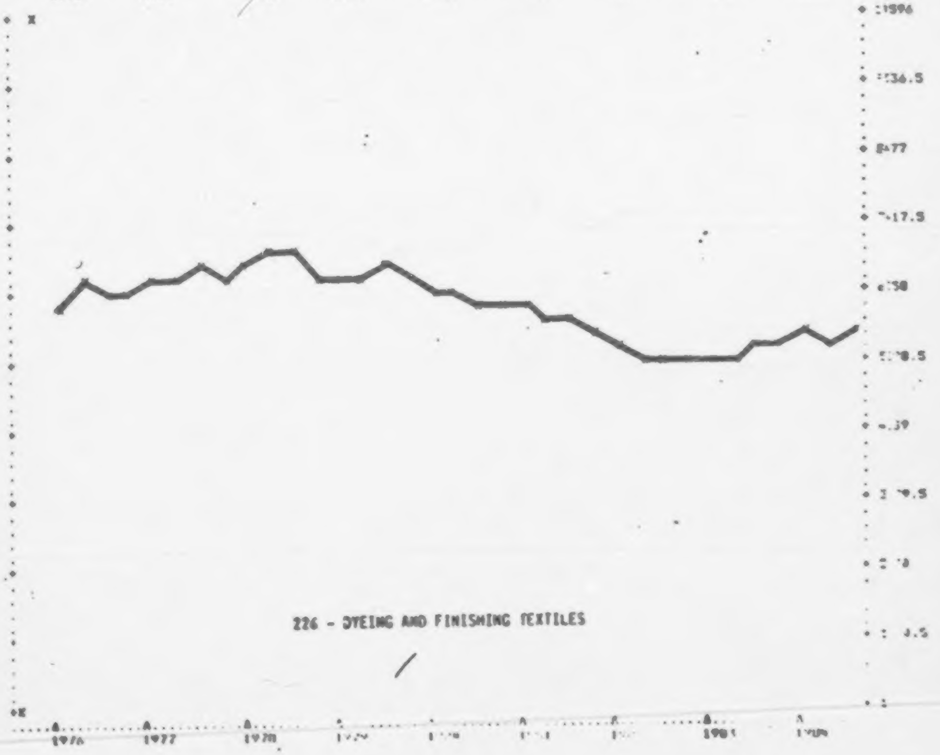


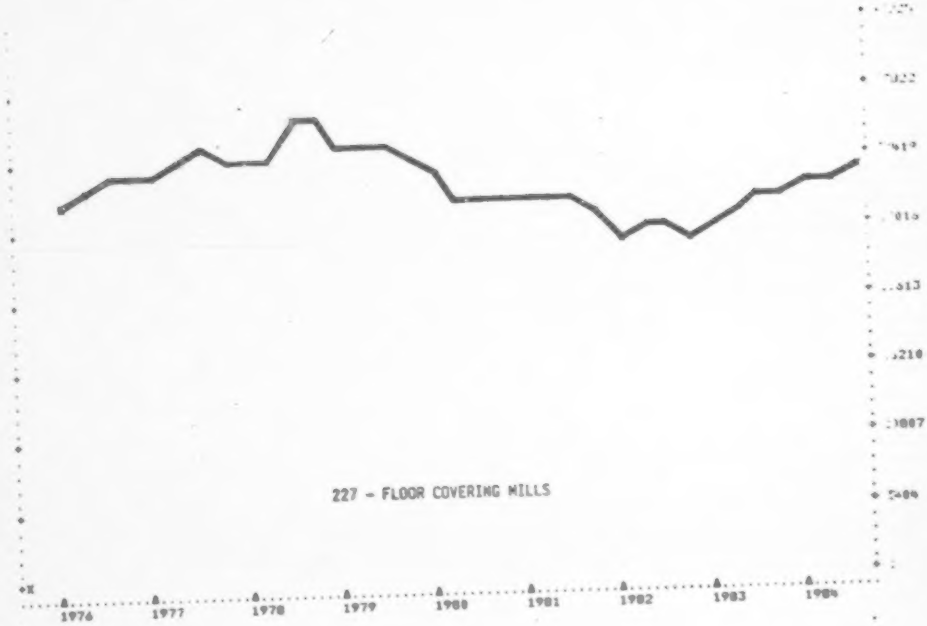
223 - BROAD WOVEN FABRIC MILLS, WOOL



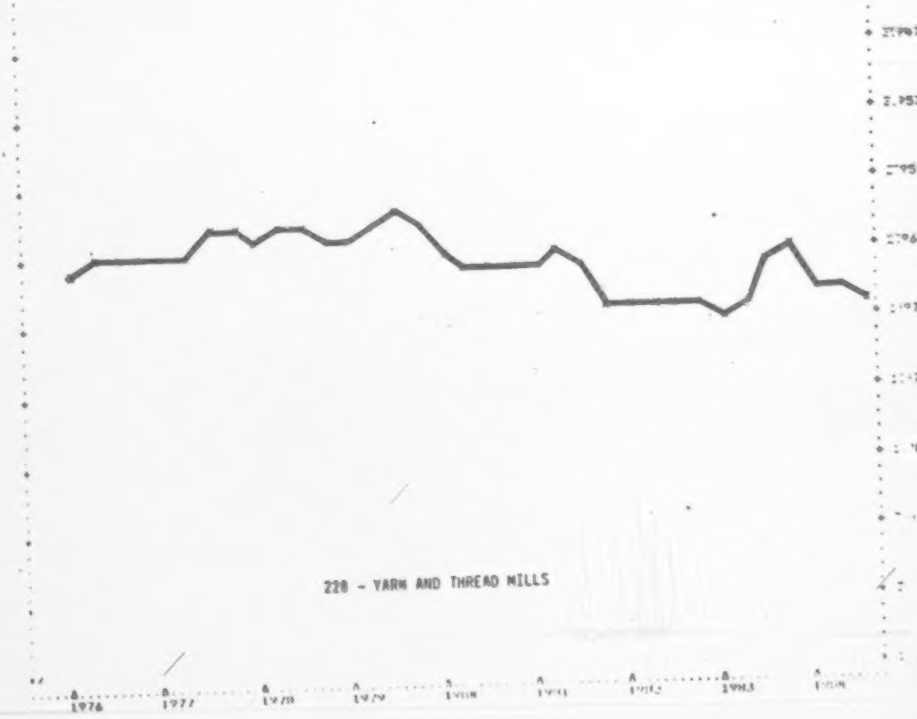
226 - NARROW FABRICS & OTHER SMALLWARES MILLS


225 - KNITTING MILLS
1976
1977
1978
1979
1980
1981
1982
1983
1984
513.5

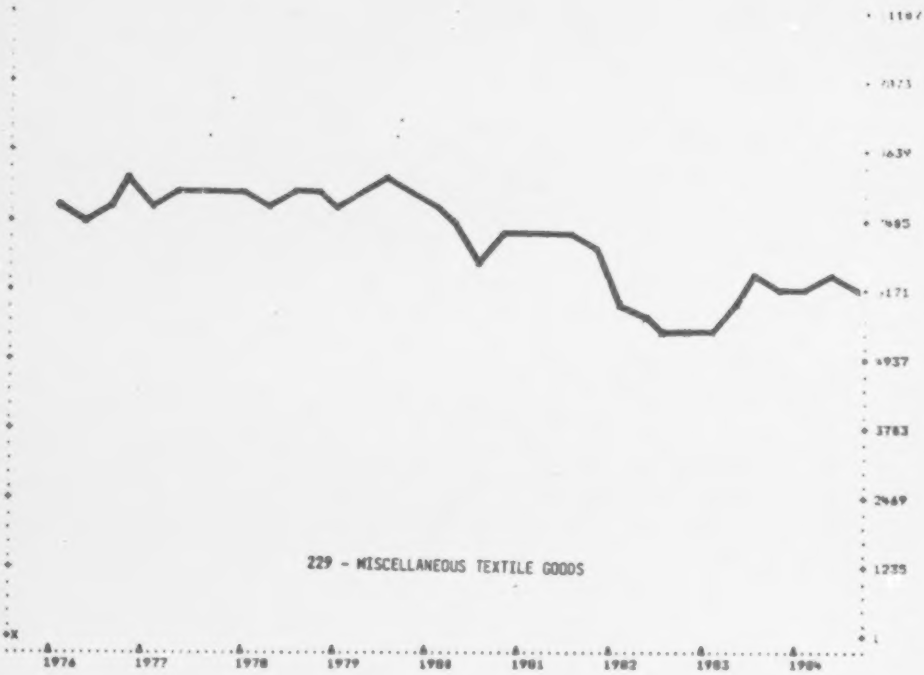

226 - DYEING AND FINISHING TEXTILES
1976
1977
1978
1983
1984



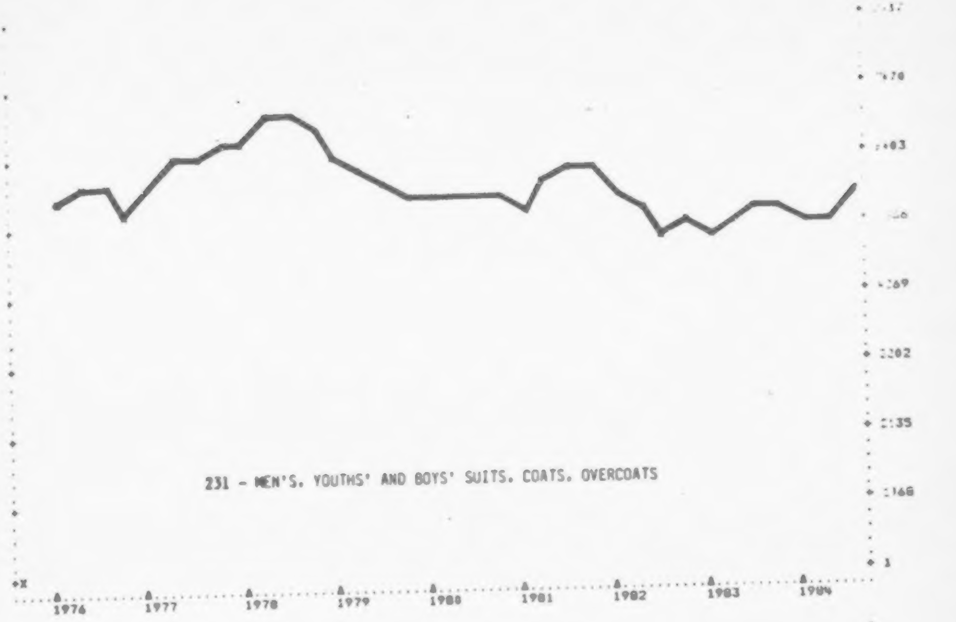
227 - FLOOR COVERING MILLS



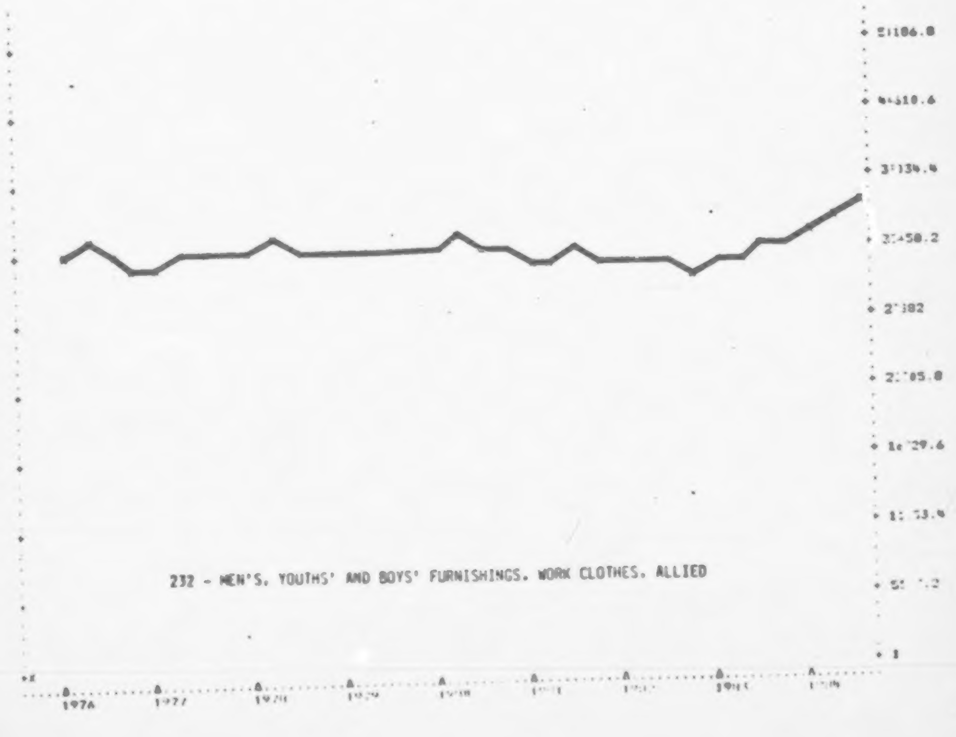
228 - YARN AND THREAD MILLS



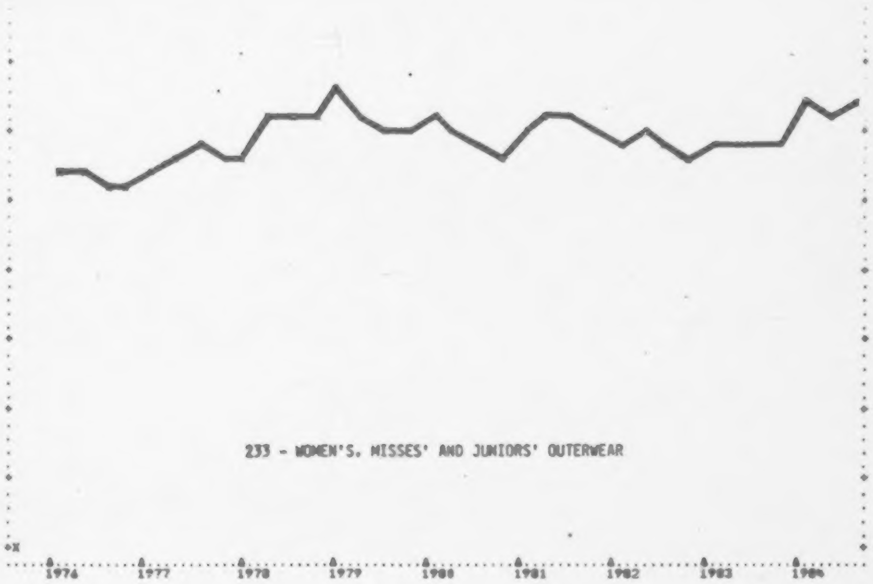
229 - MISCELLANEOUS TEXTILE GOODS



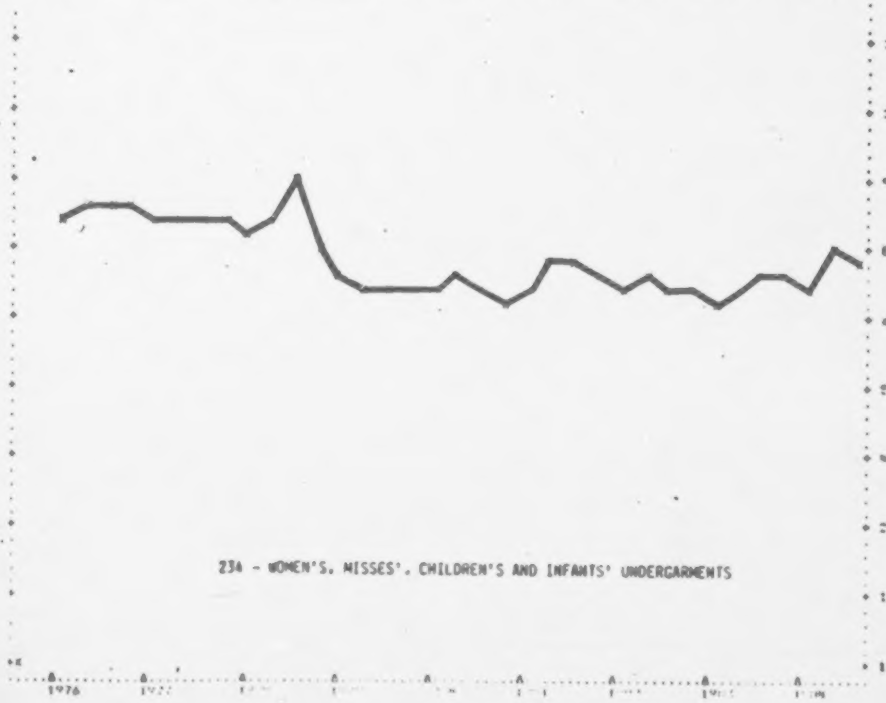
231 - MEN'S, YOUTHS' AND BOYS' SUITS, COATS, OVERCOATS



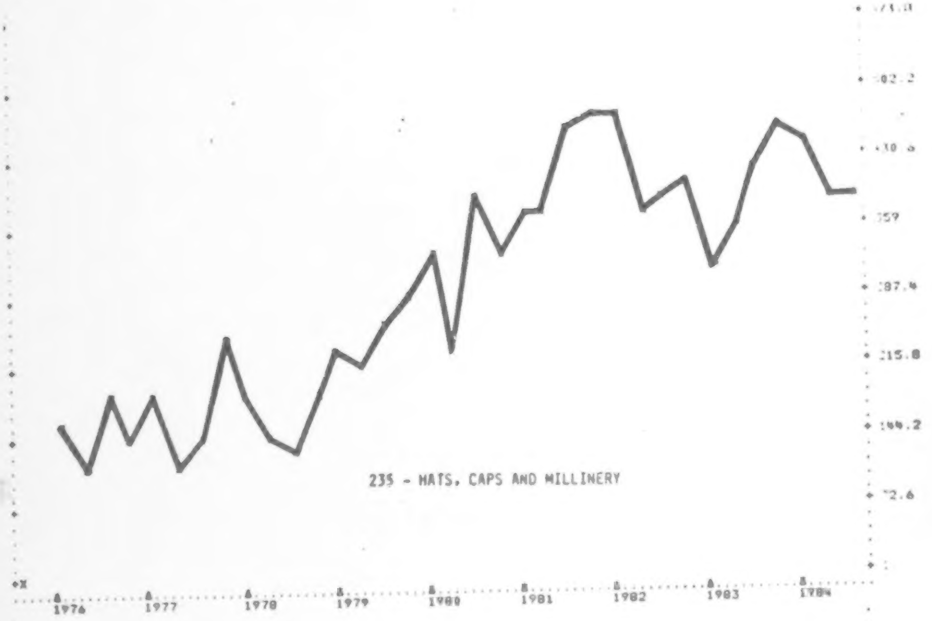
232 - MEN'S, YOUTHS' AND BOYS' FURNISHINGS, WORK CLOTHES, ALLIED



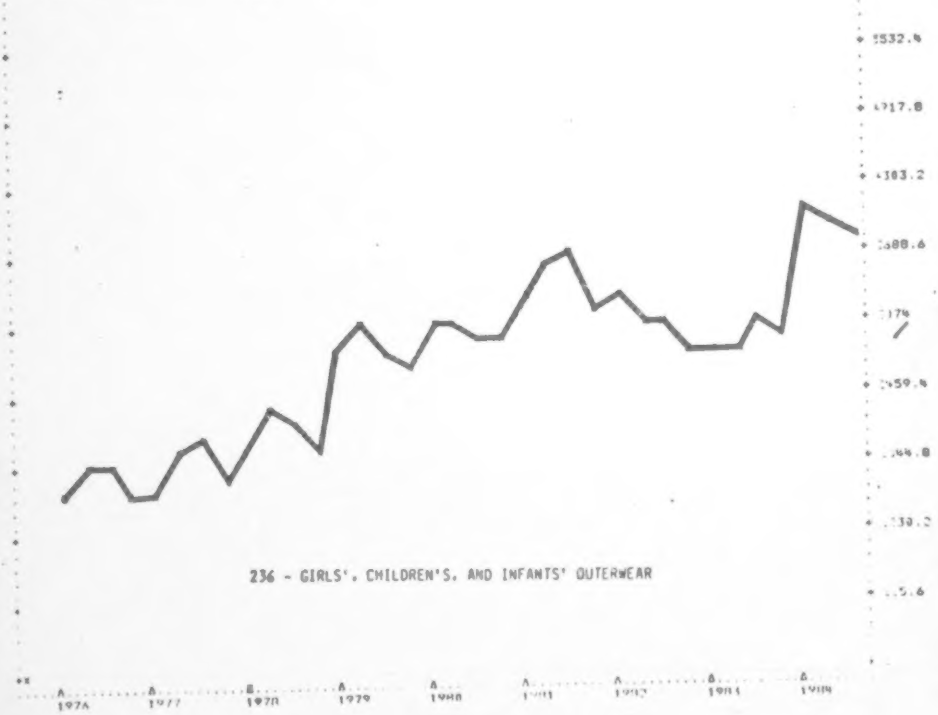
233 - WOMEN'S, MISSES' AND JUNIORS' OUTERWEAR



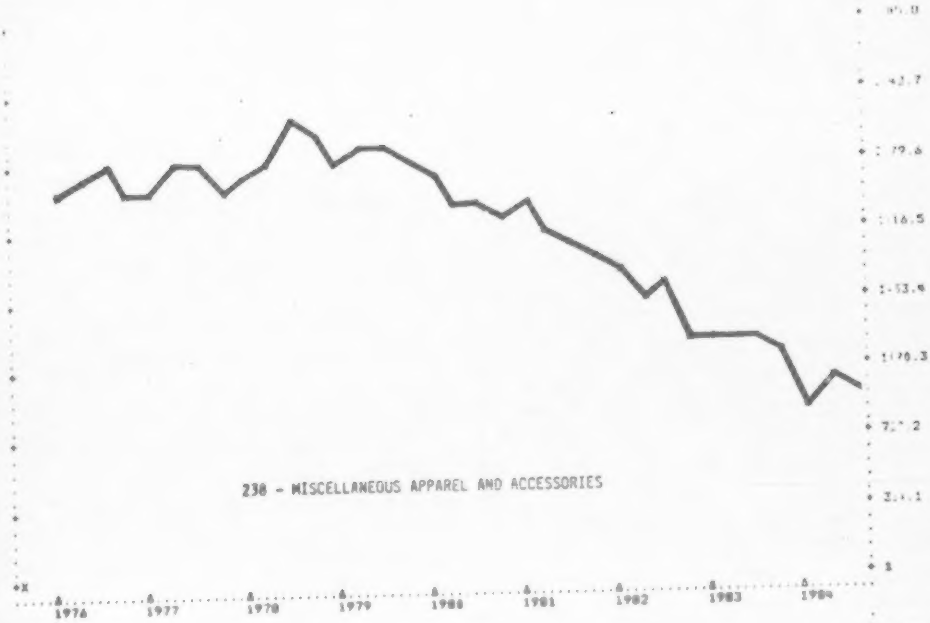
234 - WOMEN'S, MISSES', CHILDREN'S AND INFANTS' UNDERGARMENTS



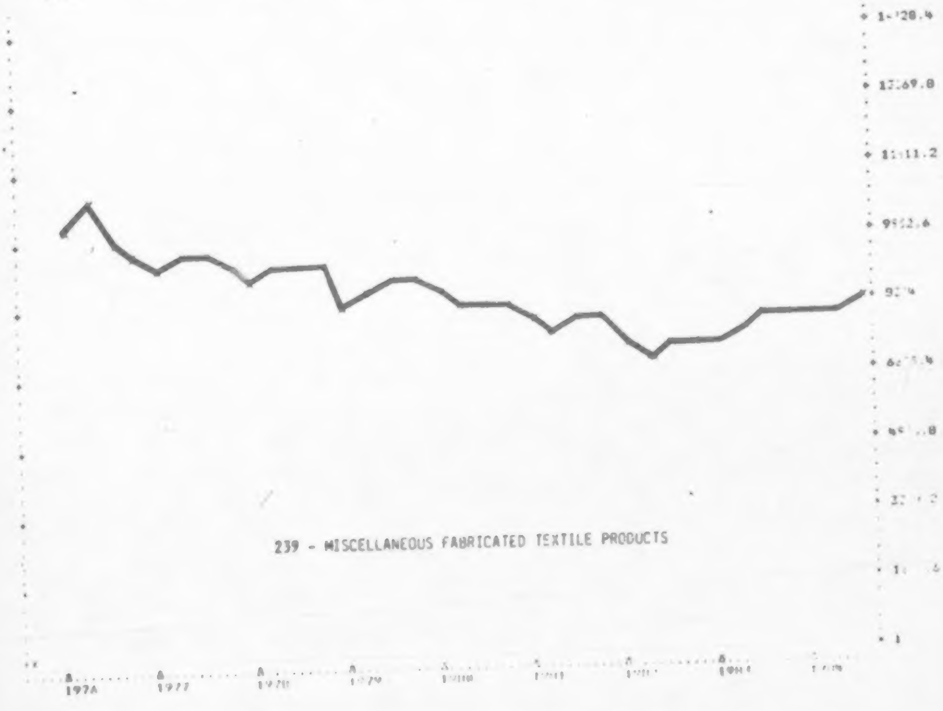
235 - HATS, CAPS AND MILLINERY



236 - GIRLS', CHILDREN'S, AND INFANTS' OUTERWEAR



238 - MISCELLANEOUS APPAREL AND ACCESSORIES



239 - MISCELLANEOUS FABRICATED TEXTILE PRODUCTS

Chairman **Gibbons**. Mr. Berry, do you want to make a statement?

STATEMENT OF GEORGE BERRY, COMMISSIONER, GEORGIA DEPARTMENT OF INDUSTRY AND TRADE

Mr. **Berry**. Mr. Chairman, thank you very much. My name is George Berry. I am the commissioner of the Georgia Department of Industry and Trade. Our job is recruitment of new industry into our State.

Georgia is probably not unique in this country in that we have a severe problem in achieving balanced rural and urban development. In Georgia, the situation is somewhat like having your feet in the oven and your head in the freezer, and someone telling you your temperature is on average normal.

Georgia's economy can be divided between a booming, diversified metro Atlanta area, and then the rest of the State. Outside Atlanta, we are heavily dependent upon textiles and agriculture, both of which are industries under severe stress. Now change, of course, is historically inseparable from our country's economic progress. Otherwise, we would still have buggy manufacturers throughout the country. But when change comes too quickly to be absorbed, that is when we all have the responsibility to do something. As Commissioner Tanner has pointed out here this morning, in recent months in particular, and especially in smaller communities, the change has come too quickly to be absorbed in the normal and orderly course of things.

This is a matter of great concern to us in the State of Georgia, particularly those of us from the ninth district and from small towns across the State, because we feel strongly that everyone should not have to go to the big city to get a job. That is ultimately the problem we face with the textile industry in our State, because it is basically the small town industry. In nearly half of our counties, the textile industry is the biggest manufacturing employer. We support some initiative that will address the industry's problems in an orderly way, while not impeding our efforts to bring international investment into our State and to continue Georgia's development as a major international center. There must be some "middle ground" approach that will simply help achieve an orderly transition to change in this industry, and that is what I support.

Thank you very much.

Chairman **Gibbons**. Thank you, Mr. Berry.

Mr. Higdon.

STATEMENT OF JIM HIGDON, COMMISSIONER, GEORGIA DEPARTMENT OF COMMUNITY AFFAIRS

Mr. **Higdon**. Thank you, Mr. Chairman, members of the committee, my name is Jim Higdon. I am commissioner of the Georgia Department of Community Affairs.

The concern of our department is the health and welfare of our cities and counties within the State of Georgia. When plants close as rapidly as they seem to have been closing recently within our State, we see the health of our community slipping and normally we find that those who are suffering are citizens who are low to moderate income in many ways, who are sometimes with limited education and are facing severe nutrition needs. And these are some of the things that we try to be concerned with and to manage in our department.

One of the Federal programs for the impoverished which includes as part of that the Dislocated Workers Program and is one that is desperately needed in Georgia. We have 10 projects underway now and we have just located one in the area, one that deals with poor housing.

There are two other programs the Governor announced recently that do not involve Federal resources that has taken initiative and have been assigned to our department. One of the undisputed issue in the program and basically that is an effort on the part of the State to work with local governments, to work with community leaders, to take a look at what is present in that community, what we think we can do to attempt to get the local people to take the initiative to bring about self-help programs themselves without necessarily depending on the Federal Government or the State government to bail them out of a situation.

Another program the Governor has asked and we are involved with is called the Business Retention and Expansion Program. Too often I think we find there is at the local level and the State level too much emphasis may be placed on attempting to attract new industry. What we are attempting to do through that program, again with the local community, local agencies, and others is to devote a lot of time, as we know this committee is doing, to find out what problems are they having, do they have plans for action, what rules and regulations may exist at the local level, the State level, and if there is any progress being made by those businesses.

What we are trying to do through these programs, I think, is to simply make the best of what we have and we recognize, as Mr. Berry has previously indicated, we are not going to locate new business and industry as effectively as we might have in the past. So that basically is why we are here today is just to indicate that the State government with its local governments are attempting to address one of these problems on our own.

Thank you.

Chairman **Gibbons**. This certainly completes an excellent overview of the conditions within the State of Georgia, and we are going to get, of course, from the next panel more details of this particular industry.

You know, I feel like I am an expert on Georgia. My grandmother came from Georgia, and my roommate in college came from Georgia. Mr. Berry, what you were saying about the conflict between the rural and urban in Georgia reminds me of when I first met my roommate. I asked him, "Bill, where are you from?" He said, "I am from right outside Atlanta." One day I went home with him to visit and found that he lived in Camilla. [Laughter.]

In those days, it was about a day's drive from Atlanta and so I know the affection that Georgians have for Atlanta and that the visitors have and I understand the basic conflicts that come from that.

But I am going to turn the questioning now over to Mr. Jenkins.

Mr. JENKINS. Thank you, Mr. Chairman. I will be very brief because I know we have a long list of witnesses. Let me ask you this, Mr. Tanner. You have indicated that your real concern is the alarming rate you are beginning to see in the number of unemployed. Since January 1984 it has been up over 50 percent in the textile industry. It is beginning to happen at a larger rate now.

What other industries do you have in the rural parts where this unemployment is occurring to attempt to move these employees into or into training? Is that very likely to occur?

Mr. TANNER. Quite candidly, the difficulty is that in the majority of the rural counties of Georgia, you have two basic industries, textiles and apparel and agriculture, both are in serious trouble. And as Mr. Berry has testified, it is going to be extremely difficult to bring new industries into those communities on short order.

Mr. JENKINS. Is it not true that you are also having the problem of so many of these employees being from two-earner families so that you will have either the husband or the wife working in another industry, and, therefore, making it impossible for the unemployed person to move to Atlanta or move to some other city to find work even if it were available?

Mr. TANNER. As a matter of fact, in many, many instances, in fact the majority, one side of the family is involved in agriculture. The other side of the family is involved in textiles and apparel and both are in trouble.

Mr. JENKINS. There is no other industry generally in those small communities for those people to become gainfully employed?

Mr. TANNER. That is correct.

Mr. JENKINS. I want to express my appreciation to each of you for your testimony and for your understanding of the problem that we are facing, and for your assistance, in the rural communities that we will continue to face. This is a real problem. Thank you, sir.

Chairman GIBBONS. Do other members have any questions?

Mr. Frenzel?

Mr. FRENZEL. Yes, I think I would like to state to Mr. Tanner I think the committee would be interested in having as up-to-date figures as you have on employment. Our figures indicate that there was a slight increase in both apparel and textile employment in 1984 and the same is true of production workers in those industries. And that if 1985 figures, as I assume Georgia is not untypical of the universe, if you have—as soon as those figures are available, if you get them on a monthly or quarterly basis, we would like to have them.

Mr. TANNER. Yes, what I would like to do with the approval of the chairman and the committee, we would like to present to you some updated documentation which we believe we can do in fairly short order.

One thing that I will emphasize to you again is that we have talked particularly textiles, not every aspect of textiles is in trouble. The carpet industry, for example, in this State was in trouble in the recessionary period of time, serious trouble. They have recovered to some degree.

Other elements of the textile industry, however, as I think you will find as others testify, are in serious trouble today and we believe quite candidly that they are going to become—they are going to get into even greater difficulty in the months ahead. I know that you have a very difficult job, and I want to tell you on behalf of the State of Georgia, we appreciate it very much your being here, taking time from your busy schedule to come all the way to Georgia.

We are very proud to have you here. We want to work with you and find the solution because these are hard-working people. Many of them have spent their entire lifetime in this occupation and now that they have reached the peak of their maturity, let's say, they find themselves unemployed. And it is really a tragic situation for many of these people.

[The following was subsequently received:]

GEORGIA DEPARTMENT OF LABOR,
Atlanta, GA, April 15, 1985.

Hon. SAM GIBBONS,
House of Representatives, Washington, DC.

DEAR CONGRESSMAN GIBBONS: During the field hearing which was held April 5th at the Unicoi Conference Center, I presented testimony concerning the current state of the textile and apparel industries in Georgia. You may recall that some of the Subcommittee members expressed an interest in obtaining additional data on the recent increases in unemployment claims and the reasons for recent layoffs and plant closings.

The enclosed data clearly indicate a worsening of the unemployment problem in these industries during recent months. The data we have obtained concerning reasons for plant closings and layoffs also show without question that imports have been a major factor in the decline of these industries in our state. In addition to the information that was requested, we are including data which indicate the levels of textile and apparel employment in each of Georgia's 159 counties.

Table 1 shows unemployment insurance claims for a reference week in each month of 1984 and January through March, 1985. You will notice that we are now experiencing sharp increases in claims in the textile and apparel industries. The figures for the month of March—which were not available at the time of the hearing—give strong evidence that Georgia is beginning to experience serious problems in the textile and apparel industries. In textiles, there has been a 56 percent increase in unemployment claims compared to the same period a year ago. In apparel, the March level of unemployment claims more than doubled (113 percent) compared to March of last year. The downward trends in employment are further confirmed by February employment data which we have received since the time of the hearing. (Because of the lag in preparing employment estimates, March data are not yet available.) From January to February of this year, employment declined from 103,100 to 102,000 in textiles and declined from 73,200 to 72,200 in apparel. This represents a loss of 2,000 jobs in these industries in a single month.

Tables 2, 3, and 4 show listings of plant closings and mass layoffs in textiles and apparel. These are similar to tables contained in our earlier report, but also contain updated figures and a column showing the reasons for plant closings and layoffs where such information was available. Imports were cited as a factor in 23 of the 37 closings and layoffs for which reasons were given.

Table 5 shows selected data relating to textile and apparel employment on a county-by-county basis. As I pointed out earlier, these industries are vital to a large number of communities in Georgia, particularly in rural areas where lost jobs are most difficult to replace.

I hope you will find this additional information helpful. Please call upon me if I can be of any further assistance.

Sincerely,

JOE D. TANNER,
Commissioner of Labor.

TABLE 1.—STATE OF GEORGIA UNEMPLOYMENT INSURANCE CONTINUED CLAIMS

	Textiles	Apparel
Week including the 12th in:		
March 1985	5,729	5,765
February 1985	4,923	5,298
January 1985	4,130	6,059
December 1984	4,172	5,326
November 1984	5,168	4,707
October 1984	3,742	4,269
September 1984	3,600	4,268
August 1984	3,611	3,609
July 1984	6,919	4,262
June 1984	3,626	2,269
May 1984	2,727	2,178
April 1984	3,353	2,641
March 1984	3,670	2,703
February 1984	3,163	3,266
January 1984	2,804	3,904

Source: Georgia Department of Labor.

TABLE 2.—PLANT CLOSINGS IN TEXTILES AND APPAREL, 1984

Company name	Date of closing	Location by county	Jobs lost	Reason
TEXTILES				
Pride Yarn Processors, Inc	January 1984	Bartow	[1] 79	Economic.
Adbac Finishers	March 1984	Whitfield	53	Do.
Indian Springs Finishing Co	June 1984	Butts	[1] 214	Do.
Georgia Synthetics	do	Elbert	225	Do.
Needlecraft Corp., of America	September 1984	Whitfield	275	Operation moved.
Signal Knitting Mills	do	Meriwether	39	Economic.
American Thread	December 1984	Haralson	150	Imports.
APPAREL				
Gabestan Clothing	January 1984	Haralson	[1] 48	Economic.
Sunbelt Apparel	do	Paulding	[1] 86	Do.
The Bibb Co.-PLant Laurel	February 1984	Taylor	110	Economic-imports.
Empire Shirt Trimming Co., Inc	March 1984	Fulton	37	Economic.
Soft Goods, Inc	do	Catoosa	[1] 35	Do.
Siloam Industries, Inc	June 1984	Greene	153	NA [2]
Levi Strauss	do	Bibb	[1] 540	Economic.

[1] Phased cutback, beginning date shown.
[2] Information not available.

Note.—Listings represent available data only and are not necessarily exhaustive.

Source: Georgia Department of Labor.

TABLE 3.—PLANT CLOSINGS IN TEXTILES AND APPAREL (YEAR-TO-DATE, 1985)

Company name	Date of closing	Location by county	Jobs lost	Reason
TEXTILES				
Mount Vernon Mills, Inc	February 1985	Gordon	160	Imports.
Milliken & Co., Manchester Plant.	do	Meriwether	[1] 260	Do.
West Point Pepperell-Dixie Mill.	March 1985	Troup	[1] 133	Imports and domestic competition.
West Point Pepperell-Grantville Mill.	do	Coweta	[1] 142	Imports and restructuring.
Reeves Brothers, Inc	do	Dodge	349	Imports.
Milliken & Co., Gainesville Mill.	do	Hall	[1] 200	Do.

TABLE 3.—PLANT CLOSINGS IN TEXTILES AND APPAREL (YEAR-TO-DATE, 1985)—Continued

Company name	Date of closing	Location by county	Jobs lost	Reason
APPAREL				
Modern Manufacturing	January 1985	Morgan	54	Imports.
Statenville Industries	do	Echols	26	Economic.
Jacque Jaunet	February 1985	Walker	[1] 116	Out of business-imports.
Waycross Sportswear	March 1985	Ware	125	Imports.
William Carter Co	do	Spalding	60	Economic and imports.
Colbert Manufacturing Co	do	Madison	80	Imports.
Chalk Line, Inc	do	Carroll	70	Do.
Comer/Monarch Manufacturing Co.	April 1985	Madison	300	Do.

[1] Phased cutback, beginning date shown.

Note.—Listings represent available data only and are not necessarily exhaustive.

Source: Georgia Department of Labor.

TABLE 4.—MASS LAYOFFS IN TEXTILES AND APPAREL AFFECTING 100 OR MORE EMPLOYEES

Company name	Date of layoff	Location by county	Jobs lost	Reason
TEXTILE INDUSTRY, 1984				
West Point Pepperell-Dixie Mill	March 1984	Troup	[1] 144	Imports.
Shaw Industries	June 1984	Ben Hill	151	Seasonal.
Milliken & Co., Manchester Plant	October 1984	Meriwether	[1] 102	Imports.
TEXTILE INDUSTRY, 1985				
Bibb Manufacturing, Columbus	January 1985	Muscogee	[1] 400	Imports-economic.
West Point Pepperell, LaGrange	do	Troupe	156	Imports.
Swift Textiles	February 1985	Muscogee	132	Imports-automation.
Thomaston Mills, Inc	do	Spalding/Pike	200	Automation-imports.
Briarcliff Mills	March 1985	Fulton	100	Imports-economic.
APPAREL INDUSTRY, 1985				
Bridan Industries	March 1985	Carroll	250	200 temporary layoff.
Kaiser Roth Hosiery	April 1985	Cobb	114	Imports.

[1] Phased cutback, beginning date shown.

Note.—Listings represent available data only and are not necessarily exhaustive. The available sources revealed no listings for Apparel in 1984.

Source: Georgia Department of Labor.

TABLE 5.—SELECTED COUNTY-LEVEL EMPLOYMENT DATA RELATING TO THE TEXTILE AND APPAREL INDUSTRIES

County	Total UI-covered employment [1]	Manufacturing employment [1]	Manufacturing (percent of total)	Textiles and apparel employment [1]	Textile-apparel (percent of total)	Farm employment [1]	Population	
							1980	1983
Appling	5,533	1,502	27.1	601	10.9	756	15,565	16,100
Atkinson	1,339	673	50.3	80	6.0	420	6,141	6,200
Bacon	2,900	1,320	45.5	991	34.2	762	9,379	9,600
Baker	755	322	42.6	320	42.4	395	3,808	3,900
Baldwin	16,181	4,491	27.8	1,680	10.4	99	34,686	37,100
Banks	2,294	1,169	51.0	1,146	50.0	311	8,702	9,400
Barrow	8,052	4,311	53.5	2,032	25.2	400	21,354	23,000
Bartow	15,892	7,639	48.1	5,357	33.7	522	40,760	43,300
Ben Hill	5,391	2,107	39.1	1,087	20.2	368	16,000	16,600
Berrien	4,075	2,240	55.0	1,683	41.3	859	13,525	13,800
Bibb	66,158	14,274	21.6	2,454	3.7	397	150,256	155,100
Bleckley	2,246	475	21.1	423	19.8	293	10,767	10,800

TABLE 5.—SELECTED COUNTY-LEVEL EMPLOYMENT DATA RELATING TO THE TEXTILE AND APPAREL INDUSTRIES—Continued

County	Total UI-covered employment [1]	Manufacturing employment [1]	Manufacturing (percent of total)	Textiles and apparel employment [1]	Textile-apparel (percent of total)	Farm employment [1]	Population	
							1980	1983
Brantley	967	273	28.2	128	13.2	310	8,701	9,000
Brooks	3,069	1,168	38.1	1,080	35.2	1,388	15,255	15,400
Bryan	1,836	392	21.4	0	....	123	10,175	11,400
Bulloch	12,032	934	7.8	316	2.6	1,329	35,785	36,600
Burke	12,615	1,403	11.1	676	5.4	913	19,349	20,500
Butts	3,322	999	30.1	742	22.3	134	13,665	15,300
Calhoun	1,530	331	21.6	221	14.4	556	5,717	5,700
Camden	5,676	2,391	42.1	0	....	154	13,371	16,600
Candler	1,847	308	16.7	263	14.2	534	7,518	7,600
Carroll	24,446	12,122	49.6	4,138	16.9	620	56,346	60,500
Catoosa	9,130	2,529	27.7	2,118	23.2	205	36,991	38,300
Charlton	1,753	776	44.3	397	22.6	198	7,343	7,600
Chatham	87,376	15,528	17.8	191	.2	452	202,226	211,200
Chattahoochee	5,408	96	1.8	96	1.8	18	21,732	19,700
Chattooga	6,498	3,894	59.9	3,010	46.3	156	21,856	21,500
Cherokee	10,077	1,876	18.6	663	6.6	749	51,699	59,800
Clarke	44,676	11,489	25.7	3,148	7.0	424	74,498	76,100
Clay	715	147	20.6	121	16.9	356	3,553	3,500
Clayton	65,754	5,766	8.8	494	.8	227	150,357	157,700
Clinch	2,261	1,251	55.3	48	2.1	179	6,660	6,800
Cobb	132,179	25,244	19.1	630	.5	509	297,718	334,600
Coffee	9,423	3,839	40.7	728	7.7	1,802	26,894	28,000
Colquitt	11,218	4,409	39.3	2,237	19.9	1,843	35,376	36,400
Columbia	7,773	2,104	27.1	248	3.2	169	40,118	46,300
Cook	3,516	1,628	46.3	107	3.0	877	13,490	13,800
Coweta	13,691	5,488	40.1	2,287	16.7	308	39,268	42,000
Crawford	972	195	20.1	111	11.4	213	7,684	7,100
Crisp	6,744	1,420	21.1	413	6.1	605	19,489	20,100
Dade	1,956	638	32.6	371	19.0	77	12,318	11,700
Dawson	944	213	22.6	150	15.9	239	4,774	5,600
Decatur	9,604	3,807	39.6	2,301	24.0	1,430	25,495	26,300
DeKalb	239,362	32,704	13.7	737	.3	1,076	483,024	500,200
Dodge	3,847	1,195	31.1	676	17.6	649	16,955	17,100
Dooly	2,493	890	35.7	640	25.7	880	10,826	10,600
Dougherty	45,746	9,999	21.9	1,245	2.7	476	100,718	102,800
Douglas	11,907	1,130	9.5	317	2.7	169	54,573	60,700
Early	4,520	1,921	42.5	555	12.3	901	13,158	13,300
Echols	271	70	25.8	51	18.8	120	2,297	2,200
Effingham	1,956	413	21.1	100	5.1	276	18,327	20,200
Elbert	6,813	2,459	36.1	673	9.9	190	18,758	19,200
Emanuel	6,361	2,652	41.7	1,156	18.2	754	20,795	21,400
Evans	2,716	1,212	44.6	365	13.4	538	8,428	8,700
Fannin	2,748	643	23.4	569	20.7	138	14,748	15,200
Fayette	8,495	1,935	22.8	127	1.5	240	29,043	36,500
Floyd	32,023	10,790	33.7	4,790	15.0	539	79,800	79,100
Forsyth	7,592	2,222	29.3	327	4.3	760	27,958	31,300
Franklin	4,294	1,463	34.1	1,028	23.9	440	15,185	15,700
Fulton	557,643	56,399	10.1	3,963	.7	1,958	589,904	607,000
Gilmer	3,392	1,653	48.7	451	13.3	247	11,110	11,500
Glascock	618	259	41.9	169	27.3	666	2,382	2,300
Glynn	25,402	5,348	21.1	56	.2	195	54,981	56,900
Gordon	12,670	7,373	58.2	6,072	47.9	604	30,070	31,100
Grady	5,164	1,828	35.4	633	12.3	1,508	19,845	20,200
Greene	3,647	2,035	55.8	1,346	36.9	398	11,391	11,800
Gwinnett	76,723	19,341	25.2	1,259	1.6	492	166,903	208,600
Habersham	9,959	4,643	46.6	1,493	15.0	399	25,020	26,400
Hall	37,417	13,810	36.9	3,428	9.2	1,668	75,649	79,500
Hancock	1,561	453	29.0	171	11.0	169	9,466	9,400
Haralson	6,919	3,956	57.2	2,721	39.3	98	18,422	19,000

TABLE 5.—SELECTED COUNTY-LEVEL EMPLOYMENT DATA RELATING TO THE TEXTILE AND APPAREL INDUSTRIES—Continued

County	Total UI-covered employment [1]	Manufacturing employment [1]	Manufacturing (percent of total)	Textiles and apparel employment [1]	Textile-apparel (percent of total)	Farm employment [1]	Population	
							1980	1983
Harris	2,876	586	20.4	1	...	188	15,464	15,800
Hart	6,124	3,381	55.2	1,759	28.7	372	18,585	19,100
Heard	1,653	686	41.5	277	16.8	127	6,520	6,700
Henry	8,828	2,362	26.8	321	3.6	231	36,309	39,900
Houston	32,869	2,881	8.8	449	1.4	451	77,605	82,100
Irwin	2,797	1,472	52.6	540	19.3	731	8,988	9,100
Jackson	6,619	2,891	43.7	2,106	31.8	745	25,343	26,800
Jasper	2,371	1,482	62.5	179	7.5	221	7,553	7,600
Jeff Davis	5,348	3,166	59.2	2,513	47.0	405	11,473	11,700
Jefferson	5,524	2,633	47.7	1,316	23.8	587	18,403	18,600
Jenkins	2,366	1,156	48.9	662	28.0	536	8,841	8,700
Johnson	2,241	1,358	60.6	1,073	47.9	398	8,660	8,700
Jones	2,249	793	35.3	0	...	134	16,579	17,900
Lamar	3,012	1,404	46.6	1,359	45.1	154	12,215	12,200
Lanier	936	267	28.5	195	20.8	227	5,654	5,700
Laurens	14,614	4,837	33.1	2,725	18.6	1,039	36,990	38,000
Lee	1,539	349	22.7	323	21.0	423	11,684	13,300
Liberty	8,917	617	6.9	149	1.7	317	37,583	40,700
Lincoln	1,496	711	47.5	454	30.3	164	6,716	6,700
Long	428	25	5.8	0	...	126	4,524	5,100
Lowndes	26,235	5,462	20.8	1,299	5.0	1,011	67,972	70,200
Lumpkin	2,801	746	26.6	380	13.6	555	10,762	11,300
McDuffie	5,678	1,859	32.7	1,003	17.7	227	18,546	19,300
Mcintosh	1,748	351	20.1	0	...	45	8,046	8,200
Macon	3,848	1,729	44.9	85	2.2	719	14,003	14,300
Madison	2,319	820	35.4	600	25.9	396	17,747	18,700
Marion	1,197	547	45.7	0	...	254	5,297	5,200
Meriwether	5,693	2,360	41.5	683	12.0	604	21,229	21,300
Miller	1,430	235	16.4	166	11.6	682	7,038	7,000
Mitchell	5,880	2,201	37.4	1,179	20.1	1,408	21,114	21,600
Monroe	5,775	1,523	26.4	1,157	20.0	192	14,610	14,700
Montgomery	1,429	514	36.0	311	21.8	403	7,011	7,100
Morgan	3,986	1,896	47.6	562	14.1	516	11,572	12,200
Murray	7,226	4,820	66.7	4,172	57.7	299	19,685	21,000
Muscogee	70,938	18,347	25.9	7,597	10.7	260	170,108	174,800
Newton	9,581	3,906	40.8	531	5.5	303	34,489	38,000
Oconee	1,752	410	23.4	8	.5	205	12,427	13,600
Oglethorpe	971	225	23.2	118	12.2	301	8,929	9,300
Paulding	3,610	641	17.8	365	10.1	129	26,110	28,200
Peach	5,811	2,218	38.2	413	7.1	396	19,151	18,600
Pickens	3,936	1,206	30.6	574	14.6	115	11,652	12,300
Pierce	2,429	618	25.4	404	16.6	631	11,897	12,200
Pike	1,247	533	42.7	453	36.3	331	8,937	8,500
Polk	9,164	4,686	51.1	1,212	13.2	209	32,386	32,800
Pulaski	2,095	553	26.4	400	19.1	286	8,950	9,000
Putnam	3,566	1,475	41.4	355	10.0	347	10,295	10,900
Quitman	168	19	11.3	0	...	84	2,357	2,300
Rabun	3,487	1,112	31.9	992	28.4	153	10,466	10,700
Randolph	2,132	671	31.5	123	5.8	572	9,599	9,500
Richmond	83,954	13,528	16.1	2,282	2.7	376	181,629	185,400
Rockdale	13,988	6,014	43.0	227	1.6	89	36,747	40,400
Schley	1,095	760	69.4	0	...	104	3,433	3,400
Screven	3,809	1,763	46.3	1,215	31.9	744	14,043	14,500
Seminole	2,095	5,298	14.2	207	9.9	459	9,057	8,800
Spalding	16,223	5,636	34.7	4,494	27.7	368	47,899	50,600
Stephens	9,281	4,422	47.6	2,485	26.8	200	21,763	22,300
Stewart	1,234	419	34.0	0	...	229	5,896	6,000
Sumter	11,645	3,691	31.7	973	8.4	874	29,360	30,200
Talbot	732	98	13.4	0	...	84	6,536	6,700

TABLE 5.—SELECTED COUNTY-LEVEL EMPLOYMENT DATA RELATING TO THE TEXTILE AND APPAREL INDUSTRIES—Continued

County	Total UI-covered employment [1]	Manufacturing employment [1]	Manufacturing (percent of total)	Textiles and apparel employment [1]	Textile-apparel (percent of total)	Farm employment [1]	Population	
							1980	1983
Taliaferro	217	22	10.1	0	....	46	2,032	2,000
Tattnall	4,592	847	18.4	655	14.3	1,048	18,134	17,900
Taylor	1,492	390	26.1	147	9.9	459	7,902	7,900
Telfair	3,959	1,815	45.8	679	17.2	782	11,445	11,400
Terrell	2,745	1,015	37.0	742	27.0	539	12,017	12,000
Thomas	15,933	5,366	33.7	1,171	7.3	1,421	38,098	39,000
Tift	14,506	3,763	25.9	2,113	14.6	1,847	32,862	33,600
Toombs	8,370	3,001	35.9	1,999	23.9	749	22,592	23,100
Towns	1,216	251	20.6	223	18.3	140	5,638	6,300
Treutlen	1,130	490	43.4	463	41.0	220	6,087	6,290
Troup	24,111	10,663	44.2	6,982	29.0	257	50,003	50,900
Turner	2,175	543	25.0	344	15.8	761	9,510	9,700
Twiggs	1,846	125	6.8	0	....	157	9,354	9,400
Union	2,266	594	26.2	266	11.7	329	9,390	10,000
Upson	9,850	5,255	53.4	4,456	45.2	178	25,998	27,000
Walker	11,664	5,563	47.7	3,422	29.3	319	56,470	56,900
Walton	8,853	4,030	45.5	2,249	25.4	504	31,211	31,400
Ware	13,255	3,431	25.9	585	4.4	681	37,180	37,000
Warren	1,656	1,046	63.2	620	37.4	174	6,583	6,700
Washington	6,695	1,380	20.6	619	9.2	572	18,842	19,200
Wayne	6,953	2,377	34.2	608	8.7	444	20,750	21,700
Webster	277	85	30.7	0	....	185	2,341	2,400
Wheeler	881	321	36.4	256	29.1	354	5,155	5,000
White	3,116	865	27.8	285	9.1	356	10,120	11,000
Whitfield	40,724	22,849	56.1	16,918	41.5	367	65,789	66,000
Wilcox	1,003	270	26.9	240	23.9	447	7,682	7,600
Wilkes	4,128	1,879	45.5	1,105	26.8	309	10,951	11,200
Wilkinson	3,033	910	30.0	146	4.8	179	10,368	10,700
Worth	3,177	844	26.6	477	15.0	1,284	18,064	18,500

[1] September 1984 data representing employment covered by Georgia's unemployment insurance law.

Source: Georgia Department of Labor.

Chairman GIBBONS. Are there questions from any other members of the committee?

Mr. Anthony.

Mr. ANTHONY. Mr. Tanner, does your department do any analysis of what causes the plant closings and the recent trend in unemployment, or is it merely an agency that collects data and leaves it for somebody else to make an interpretation?

Mr. TANNER. The truth of the matter is, I think we are probably the latter. I have been in State government for 14 years. I have been the commissioner of the Georgia Department of Labor for less than a year. Our goal, however, is to broaden tremendously the horizon of our agency. However, there are a number of industrials and a number of groups in industry and trade and others, including the Georgia Institute of Technology, that have given serious consideration to the question that you just related.

There is no question that some of this problem is technology, but not all of this problem is technology. Some of the plants that have closed have recently gone through major renovation, and yet they still could not compete with foreign imports, purely and simply.

It is fine to talk about free trade, but the truth of the matter is the free trade is on the U.S. side, and it is not on the other side.

Mr. **Anthony**. Is there any data that you have that analyzes these figures? Or other resources within the State that could assist us? I assume the record will be open for a period of time for you to submit some of that data.

Personally, I am curious as to whether or not it is the strong dollars or the southern bypass, our Tax Code, or if there are some other problems that are in there. I am not only interested in the trend. I am here because I represent 1,400 workers in my area and it scares me that the trend is headed in that direction.

Chairman **Gibbons**. Other questions?

I want to thank the panel very much.

Mr. **Jenkins**. Mr. Chairman, I want to also thank George Berry and all my friends in Blairsville and for his staff that has looked after us so well at Unicoi. On behalf of our committee, thank you for the hospitality of your department.

Mr. **Berry**. Yes, sir; we are indebted to you.

Chairman **Gibbons**. Our next panel of witnesses, Mr. Nicholas Bonanno, who represents the International Ladies' Garment Workers' Union, southeast region, accompanied by Louise White; Mr. Bruce Raynor of the Amalgamated Clothing & Textile Workers' Union, accompanied by Catha Smith and Daphne Alford and then two ladies who are here, Dorothy York and Jessie Payne.

Mr. Bonanno, we will proceed with you first. Let's first allow a little time here to get people squared way.

Mr. Bonanno, I will remind you, as I will all the others, your statement and all witnesses' statements today will be included if they are in writing as if they had been delivered in total in our record. So we would appreciate your summary.

STATEMENT OF NICHOLAS BONANNO, VICE PRESIDENT, INTERNATIONAL LADIES' GARMENT WORKERS' UNION, AFL-CIO, AND DIRECTOR, SOUTHEAST REGION

Mr. **Bonanno**. Mr. Chairman, thank you very much for this opportunity, and gentlemen, Congressman Jenkins, for inviting us here to your home district to tell our story.

I welcome the fact that the record will speak with these typed pages, and I believe this story cannot be told in type. I believe that in fact this story must be told in human measure, in human suffering, in human terms.

If you turn to the back page of my testimony, you will see a list of 44 plants in the last 3 years. These are union plants throughout the southeast region, and of course, that is my particular area of work. You will see that there are 44 plants which employ approximately 7,000 employees making a decent honest living.

What this list does not tell and what this list does not show is the socioeconomic impact, the disaster, the human disasters that took place while these closings were going on. What it also does not show, Mr. Chairman, is the fact that many of our plants, union and nonunion, are suffering short weeks, short employment, less than 40 hours per week employment.

These people need—our people, the people I represent, the people in our industry, have very little to fall back on. Their weekly wage is their income. Their weekly wage is what they live on and when that is shortened or taken away from them, it is an economic disaster.

I want to close my remarks by telling this panel a story, a personal happening. Several years ago, I had a Japanese newspaperman come through Atlanta and I am on the visiting list if they want to talk to somebody in the apparel industry. And I was called, and I was glad to sit with the gentleman 2 hours, a very decent, gentleman. And finally after hours, he asked me the question he really came to ask, and that was, "Isn't your country, which is so technologically advanced, ready to do what we did in Japan, and that is to dismantle your textile apparel and get involved in other things, more advanced."

And coming from a family who worked in the garment industry, who survived this Nation and its economic trials and tribulations in this garment industry, I thought about this question. And I had heard something about it, but it had never come to me in that full blown package. And I said unfortunately or fortunately, the United States of America is not Japan.

In Japan you are all Japanese. You all speak the same language. You all have the same culture. You all eat the same food and to switch from one thing to another in that small island. That compact homogeneous group is simple.

America, its greatness is the people it brings from other shores. It is the people that it introduces to its social and economic life. It is the people who don't speak the language, who don't know the culture, who don't know the idioms, and these people whether it is from Vietnam, Korea, Cuba, or Mexico, or whether it is the farmer who happens to migrate to the city must start some place and that some place has to be in a labor intensive industry like ours. And we can't wipe 2 million jobs off the face of our economic framework.

He said to me, no one ever explained it to me in those terms. And those are the terms, gentlemen, that we have to look at this textile apparel industry in. Thank you very much for your time.

[The prepared statement follows:]

STATEMENT OF NICHOLAS BONANNO, VICE PRESIDENT, INTERNATIONAL LADIES' GARMENT WORKERS' UNION, AFL-CIO

My name is Nicholas Bonanno. I am a Vice President of the International Ladies' Garment Workers' Union and the Director of the Union's Southeast Region which is based in Atlanta. I welcome the opportunity to appear before you today to tell you first hand how the disastrous flood of clothing imports are affecting our members, and garment workers generally, in this region.

My office covers operations in eight States—North and South Carolina, Tennessee, Georgia, Florida, Alabama, Mississippi and Louisiana. In a little over 3 years, 44 unionized plants in these States, employing a total of over 7,000 workers, have permanently closed their doors. Attached to my testimony is a table listing these 44 plants.

The sad picture in our industry was not confined to unionized plants. The industry at large has also been on the decline recently in our area. In 1984, the apparel industry in the eight States employed 3,000 fewer workers than at its peak in 1978. The knitgoods industry was in even worse condition. It employed nearly 20,000 fewer workers in 1984 than at its peak around ten years ago.

What has caused this serious cutback in the apparel and knitgoods industries in our area? The factors that encouraged company after company to come into the Southeast and open or expand operations still largely remain—an ample labor supply, adequate space, moderate costs. What has happened is the loss of production and jobs to low-cost foreign nations. A flood of apparel imports have eroded an industry that is essential, indeed critical, to the economic health of so many of the communities in our area.

There is simply no way in which our modern, productive plants nor our skilled, devoted workers can compete with foreign wages that are but a tiny fraction of American wages. Here in Georgia, for example, the average apparel worker earns about $5 an hour while a worker in the average knitting mill earns about $6. How can we compete with an average apparel wage in China of 16 cents an hour or with the other low wage in apparel exporting countries around the globe. No amount of productivity improvement or cost cutting will permit our plants or workers to compete.

Bargain hunters have gradually transferred abroad the heart of our domestic apparel industry. They include retailers who take advantage of the low prices of imports to boost markups and profits. They include a wide range of importers and middlemen who flood our markets with imports. And they include manufacturers who seek to compete by becoming importers themselves.

One thing is certain, however. No matter who does the importing, no matter who makes the profit, each imported garment means the loss of work for an American worker.

The import inroads have been pervasive. Little by little they have affected virtually every apparel product, virtually every community. Large companies and small have been destroyed by the import tide. Even one of the recognized giants in our industry—Jonathan Logan—has been forced to its knees. In the past three years alone, it has been forced to close down 14 plants employing some 4,395 workers in five States—Alabama, Florida, North and South Carolina and Tennessee.

In addition to the many shops that closed their doors because of imports, countless others laid off many workers and worked fewer hours. Imports have had a cataclysmic impact on thousands of garment workers and their families.

Most of these plant closings and layoffs occurred in the small communities so typical of this area. And even though apparel plants are not industrial giants, they can employ a large fraction of the labor force in a given community. Consider, for example, what it meant to a town like Brent, Alabama with a population of 2,800 to lose a plant with over 200 apparel workers. Or what impact the closing of a plant with over 250 workers had on a city like Brunswick, Georgia with a population of 17,000. Or what it meant to Fayetteville, Tennessee with a population of 7,500 when a plant of 170 workers closed. Only a tiny handful of the 44 unionized plants that closed in the past three years were in cities like Atlanta or Asheville. Most were in small communities.

More important, consider the human factor. Consider how few job alternatives there were in these communities for the workers that lost their employment because of imports. Many of these towns and cities depend on textile plants as well as apparel plants to form their economic base. But the textile industry has also been hit hard by imports and offers no alternative jobs. Indeed, the unemployed textile workers are competing with unemployed apparel workers for any possible employment.

Most of the apparel workers—around 85 percent—are women. They cannot readily leave their homes and families to search for work in other communities. Many have minimal education. Many are members of minority groups or immigrants. Many have returned to work after raising families or after being widowed. They may not be able to learn new skills even if alternative jobs were available. Many garment workers provide critical income for their families even if they are married. Husbands with jobs in farming, mining and other blue collar occupations are also experiencing difficulties in finding steady employment in these communities.

This is not the time nor the place to go into a lengthy discussion of the import problem and how to solve it. Clearly our government must find some way to stem the unrelenting growth of apparel imports. In the space of one generation we have gone from an industry in which imports used to amount to 4 garments out of every 100 sold in the United States, to one in which at least half of the clothing purchased is imported. Although we have in place massive, cumbersome agreements that are supposed to limit apparel imports and prevent disruption of domestic markets and jobs, they simply do not work.

Apparel imports rose 21.3 percent in 1984 on top of a 15.1 percent increase in 1983. They are now two and a half times what they were only ten years ago. This can in no way be described as controlled imports. It can best be called uncontrolled imports.

The need for control is urgent. Our area has only recently begun to feel the full brunt of the import onslaught that other parts of the country have had to endure for so much longer. But the virulent pace with which imports continue to make inroads in our industry requires immediate action.

Legislation has been introduced in the Congress within the past few weeks that would bring apparel and textile imports into line with the levels and growth patterns contemplated by the Multifiber Arrangement and the bilateral agreements we negotiated with our major suppliers. The bill would rollback shipments from the few large shippers that dominate our import trade and make way for the smaller nations and newcomers to have a chance to participate. It would keep import growth generally in line with the growth in domestic consumption in the years ahead and permit American workers once again to have job opportunities that are now being denied them.

The passage of such legislation and administrative action to bring the import situation under control are must items for the survival of our workers, their families and their communities.

I have tried to convey to this distinguished committee some of the problems faced by communities and workers in the face of the never ending import growth.

To better illustrate this point I have with me today Ms. Louise White of Atlanta, Georgia who for over 25 years worked at Lee Dress, a ladies garment firm in Atlanta, Georgia. Lee Dress was a firm which had been in operation for over 40 years and closed in 1983 because of the unjust competition from imports.

SOUTHEAST REGION ILGWU SHOPS THAT HAVE CLOSED, 1981–85

Date closed	Name of shop	City and State	Employment
Feb. 15, 1981	Lynn Fashions	Brent, AL	115
Feb. 28, 1981	Standard Textile Mills	Paw Creek, NC	150
Apr. 9, 1981	Searcy Inc.	Enterprise, AL	61
June 30, 1981	Prattsville of Palmetto	Palmetto, GA	24
Sept. 30, 1981	Sondra Inc	Bossier Creek, LA	201
Oct. 1, 1981	Eufala Fashions	Eufala, AL	165
Oct. 1, 1981	Oxford Fashions	Oxford, AL	173
Oct. 31, 1981	Butte Knitting Mills	Spartanburg, SC	1,995
Nov. 1, 1981	K-Way	Moundville, AL	47
Jan. 31, 1982	Harbor Road	Blue Ridge, GA	47
Feb. 1, 1982	Perception	Hialeah, FL	100
Feb. 26, 1982	Talon	Woodland, NC	216
May 7, 1982	Roxobei Garment Co	Roxobel, GA	103
July 1, 1982	Habersham	Clarksville, GA	87
July 30, 1982	Livingston Fashions	Livingston, AL	137
Aug. 20, 1982	Sandra Fashions	Sanford, FL	102
Aug. 27, 1982	Green Manufacturing	Greeneville, TN	146
Sept. 3, 1982	Cedar Bluff Manufacturing	Cedar Bluff, GA	81
Sept. 3, 1982	Kim Fashions	Hialeah FL	342
Sept. 4, 1982	Joy Fashions	Columbus, GA	67
Sept. 10, 1982	Roanoke Fashions	Roanoke, AL	182
Sept. 24, 1982	Vanity Fair	Jackson, AL	76
Oct. 29, 1982	Kingston Dress	Fayettville, TN	173
Oct. 31, 1982	Brunswick Manufacturing	Brunswick, GA	261
Jan. 31, 1983	F.T.D. Apparel	Brent, AL	226
Feb. 18, 1983	Lee Dress Manufacturing Co	Atlanta, GA	54
Mar. 31, 1983	Stevens Fashions	Carrollton, AL	154
June 4, 1983	Norlina Manufacturing Co	Norlina, NC	64
Aug. 5, 1983	Flower Classics Inc	Hialeah, FL	44
Mar. 1, 1984	Andrew Knit	Tuscaloosa, AL	193
Mar. 30, 1984	Clinton Apparel Manufacturing Co	Clinton, NC	140
Apr. 6, 1984	Bibb Apparel	Brent, AL	84
Apr. 13, 1984	Calhoun Manufacturing	St. Matthews, SC	136
Apr. 30, 1984	Makress Inc	Dania, FL	3
Apr. 30, 1984	New Seaboard Industries	Seaboard, NC	86
July 31, 1984	Columbus Shirt Co	Columbus, NC	106
July 31, 1984	Hadley Corp	Asheville, NC	93
Aug. 31, 1984	ABC Manufacturing	Manning, SC	78
Aug. 31, 1984	Lee Apparel Co., inc	Savannah, TN	150
Sept. 21, 1984	Barbara Leslie	Darlington, SC	97
Nov. 30, 1984	New Carolina	Weldon, NC	97

SOUTHEAST REGION ILGWU SHOPS THAT HAVE CLOSED, 1981-85—Continued

Date closed	Name of shop	City and State	Employment
Jan. 26, 1985	Orangeburg Garment	Orangeburg, SC	156
Feb. 15, 1985	Bryn Mawr	Morrow, GA	10
Mar. 31, 1985	Margaret Fashions	Panama City, FL	279

Mr. Bonanno. Mr. Chairman, this is Mr. Raynor with the Amalgamated Clothing and Textile Workers Union and I believe he would like to say a few words.

Chairman Gibbons. Yes, sir, go right ahead, Mr. Raynor.

STATEMENT OF BRUCE RAYNOR, AMALGAMATED CLOTHING & TEXTILE WORKERS UNION, SOUTHEASTERN REGION

Mr. Raynor. Mr. Chairman and the committee, we, too, on behalf of my union, Amalgamated Clothing and Textile Workers, appreciate the opportunity to testify and talk about the problem that we are here to talk about.

To talk about imports as a problem for textile workers is to talk about a cancer patient being a little under the weather. Imports is not a problem for textile workers, it is a disaster for textile workers.

A few moments ago, one of the members of the committee asked about statistics, and I am sure that through representatives of the labor organizations and the industry trade associations, those statistics will be provided that tell a very sad story.

As my colleague from the Ladies' Garment Workers mentioned, the story of the effect of imports on textile and apparel workers in this State and in the Southeast is not told by statistics. It has to be told in human terms.

Twenty-five percent of textile workers in this country are black. In the Southeast, it is more like 30 or 35 percent. Fifty percent in the textile industry are women. In the apparel industry, it goes to 85 percent are women. We hear—and one of the Congressmen represents a district which is steel workers and automobile workers—we hear about those jobs need to be exported because of the high wages of the workers in that industry. No one can make an argument that textile workers are suffering because the wages are too high. Our wages are not high.

Our wages are not high in comparison to what it takes to live in this country and support a family. The wages in this industry are lower than some of our European competitors. They are higher than the Chinese. They are higher than Korea's. I don't think that anyone expects American workers to compete on wages against Asian workers making 16, 30, 40 cents an hour.

We hear that the solution to textile workers in the South is high tech. If anyone wants to see high technology introduced to its folks, I invite them to go through the textile mills in Georgia. That is high technology—computerized weave rooms, shoot fed cards, open end spinning, skilled technicians operating those machines, skilled technicians not making $10, $11 an hour, but skilled technicians making $5, $6, $7 an hour.

The people who work in this industy don't make a lot of money but they manage to pay taxes, they manage to support their families, they manage to provide the basic necessities, medical care, food. They buy homes, they buy automobiles. They keep our society going.

In many of the towns in this State and throughout the Southeast, the only jobs in industry are in textile and apparel, and if these jobs are wiped out, what are these people going to do?

Statistically a job in a textile mill and a job at a McDonald's hamburger stand is one for one. Statistically, a job in a textile mill pays $7 an hour which is one for one with the job in a convenience store. But let's look at the differences. People who work in the hamburger stand and convenience stores don't support families. They don't get fringe benefits. They don't make enough to provide the basic necessities. Statistically it is one for one and that is where, in our opinon, statistics don't tell the true story.

The human element of what it takes to support a family in this industry is necessary. We hear about the consumers' need for protection, and who do we hear it from: the retail chains which it is an interesting thing to see Federated and these other great retailers become the newest consumer protectionists in America.

They are worried about saving consumers money because they want to import. Obviously, those are the people who expect to profit and there are profits from imports. If it is going to be stopped, it is going to be stopped because people in the Government, people in this country are more concerned about the workers and the people who earn a living in this industry and the effect it has on them.

If we want to look to see an industry, to see the future of the textile and apparel industry, to prove that something needs to be done, let's look at the shoe industry. That is an industry that has been wiped out. You can't go in a store and buy a pair of ladies' shoes made in the United States. Something like 75 percent of ladies' shoes sold in the United States are imported. That is the future of this industry unless something is done.

We are here to ask this committee, the Members of Congress, the people in the administration and major policymakers not to allow the fabric of this part of the country to be torn up. Don't allow both union and nonunion workers to be put out of work, communities to be destroyed, the very basics of American community life to be destroyed, don't allow it to happen.

Free trade versus protection is but a theoretical argument, some man or some woman trying to support their family and pay their light bill and educate their children are not theoretical arguments. I am a protectionist. I believe in protecting American workers. And I don't apologize for that, and I don't think anyone in the U.S. Congress should either. Thank you.

Chairman GIBBONS. Thank you.

Dorothy York. Ms. York, we are glad to have you here. I understand that you may be a little nervous about your presentation, but just go ahead and tell us what is on your mind.

Ms. YORK. Well, I——

Chairman GIBBONS. You had better get a little closer to that microphone, or we had better get a little closer to you.

STATEMENT OF DOROTHY YORK

Ms. **York**. OK. I am Dorothy York, and I have worked 25 years for Coats & Clark. Now I am out of work due to lack of work, and I am a widow, and I have a 17-year-old son which makes it very difficult for me, and I would like to think that I will get back to work.

Chairman **Gibbons**. Fine, and where did you say you formerly worked?

Ms. **York**. Coats & Clark Co.

Chairman **Gibbons**. In Toccoa?

Ms. **York**. Right.

Chairman **Gibbons**. You and I have something in common. I used to work at Toccoa too.

Ms. **York**. Did you?

Chairman **Gibbons**. A long time ago, you were just a young girl in those days. [Laughter.]

They used to run me up and down that mountain over there, or the girls did.

Well, we are glad to have you here.

Ms. **York**. Thank you.

Chairman **Gibbons**. Ms. Payne.

Ms. **Payne**. I am Jessie Payne.

Chairman **Gibbons**. Now, Ms. Payne, you are going to have to get closer to that microphone.

STATEMENT OF JESSIE PAYNE

Ms. **Payne**. I am Jessie Payne, and I have worked at Coats & Clark for 29 years, and now I am out of work. I have been laid off ever since October due to lack of work, and my husband, he also worked for Coats & Clark in Doraville, but he is retired, and I would like to see things get better so maybe we could get back in to work, because, you know, you like to work at home for awhile, and then I—they have helped me out a lot.

Chairman **Gibbons**. Now both of you worked in the apparel industry, is that right?

Ms. **Payne**. We worked in the thread industry. The thread department.

Chairman **Gibbons**. The thread department.

Ms. **Payne**. Yes.

Mr. **Bonanno**. Mr. Chairman, I have with me Louise White, a member of the International Ladies Garment Workers' Union, who is also unemployed after 25 years of service with a firm, a small firm in Atlanta, a garment firm that was in business for 42 years, and I think maybe some words from Ms. White might be good.

Chairman **Gibbons**. Fine. We are glad to have you here.

STATEMENT OF LOUISE WHITE

Ms. **White**. Thank you, Mr. Chairman. One thing I would like to say, when I worked for 25 years, I was managing clothes when they couldn't get the work, and it is the very same thing. When you do that every day and then you don't, it was just like losing a home.

I was in two categories. I was too old, for one thing, and too young for another thing. I was too old to be laid off or completely shut out of a job after 25 years of service because one thing, it was really sort of like my lifeline, and I felt like everything had got old, and then I was too young—I was too old because—well, it seems like I was in between, I wasn't quite old enough to get retirement, and this means that I had to do something until I got 62, so the plant held on until I finally got 62, and I was able to take early retirement, but we had several people that wasn't as fortunate as I was. They was too young for anything, but we couldn't survive. Those young ones were not able to get jobs as yet, because if you get used to one thing, you can't hardly switch over to nothing, especially when you get my age, so I feel that it was an injustice, and, you know, I could have worked a long time, you can look at me and tell I wasn't ready to retire.

[Laughter.]

Mr. **BONANNO**. And I think that tells you how she feels about it, Mr. Chairman.

Chairman **GIBBONS**. It does, yes, sir.

Mr. **RAYNOR**. We would like to introduce to you Ms. Daphne Alford from Sylvester, GA who is currently laid off from a knitting mill.

STATEMENT OF DAPHNE ALFORD

Ms. **ALFORD**. Mr. Chairman, my name is Daphne Alford, and I am from Sylvester. I am employed, or, well, up to 2 months ago I was employed with B.R.W. at Sylvester, GA, was there for 7 years, and now I am on layoff.

We have seen many people in our plant that had been there 10 years or more who are out of the door. Our line of apparel was lost to imports, and we are asking that you give us something to help ourselves. In order for us to help ourselves, we must come to you.

Thank you.

Mr. **RAYNOR**. And Catha Smith from the same mill in Sylvester.

STATEMENT OF CATHA SMITH

Ms. **SMITH**. Thank you, Mr. Chairman.

I also worked at B.R.W. in Sylvester, and I was employed there for 7 years until January, and I was laid off.

As Daphne said, a lot of people are out of our plant. We lost a lot of our apparel, knitted fabrics, through imports, you know, and now we are down to one full shift from four—the only thing we have is automotive, and that is why we are out of the plant.

We had 200 workers and now we are down to 40. You know, it don't look like things are going to get better, so we are here to make a plea to you to do someting about imports.

Thank you.

Chairman **GIBBONS**. How long did you work for the firm before you were laid off?

Ms. **SMITH**. Seven years, and before that, I worked in the garment industry right out of high school, so textiles is all I know, you know, and even though I am rather young, I still like to work, and I wish that you could do something about that.

Chairman **GIBBONS**. Thank you.

Mr. Jenkins.

Mr. **JENKINS**. Thank you, Mr. Chairman.

I want to express my appreciation to the panel. I know there are some members on the committee who wonder why I have a special interest in textiles and apparel. Just like Ms. York and Ms. Payne, my mother worked as a seamstress for about 20 years in the garment industry right here in the district, so I have a special interest.

I want to ask a couple of questions of the people from Toccoa. Ms. York, did you say you have worked for 29 years?

Ms. YORK. Twenty-five.

Mr. JENKINS. Twenty-five years, and you have got a son that is in school?

Ms. YORK. Right.

Mr. JENKINS. Is that correct?

Ms. YORK. He is in high school, and he would like a higher education.

Mr. JENKINS. You are a widow?

Ms. YORK. Right.

Mr. JENKINS. You are the only earner in the family?

Ms. YORK. Right.

Mr. JENKINS. Is that correct?

Ms. YORK. Yes, sir.

Mr. JENKINS. How much were you making an hour?

Ms. YORK. I was making $6 an hour.

Mr. JENKINS. Did you say $6 per hour?

Ms. YORK. Yes, sir.

Mr. JENKINS. You have been laid off for how long?

Ms. YORK. For 2 weeks.

Mr. JENKINS. And your only income now, I would assume, is unemployment compensation?

Ms. YORK. Right.

Mr. JENKINS. Which will last for 26 weeks total, is that right?

Ms. YORK. Right.

Mr. JENKINS. Are there any other jobs in the Stephens County, Toccoa area that are available to you?

Ms. YORK. Not that I know of.

Mr. JENKINS. Your only training is in textiles and apparel.

Ms. YORK. Right.

Mr. JENKINS. Ms. Payne, how long have you worked?

Ms. PAYNE. Twenty-nine years.

Mr. JENKINS. Twenty-nine years?

Ms. PAYNE. Right.

Mr. JENKINS. All of that has been in the textile and apparel?

Ms. PAYNE. Yes.

Mr. JENKINS. You have no training in any other field?

Ms. PAYNE. No, that is right.

Mr. JENKINS. Do you know of any jobs in any area, Stephens or Habersham, or in those areas that you are qualified to do?

Ms. PAYNE. No.

Mr. JENKINS. Your only hope is that you will ultimately be recalled?

Ms. PAYNE. Right.

Mr. JENKINS. Into the Coats & Clark operation, is that correct?

Ms. PAYNE. Yes.

Mr. **Jenkins**. I would assume that your average pay is accordingly $6 an hour?

Ms. **Payne**. Yes.

Mr. **Jenkins**. I think, Mr. Chairman, that this is typical. These people who have devoted most of their working lives, to this industry, and cannot understand why we permit as a nation the total elimination of the very productive industry that supplies jobs to people, Ms. Smith, Ms. Alford, Ms. York, Ms. Payne. I would hope that this committee would listen very carefully to these people as we travel across the country.

Thank you very much.

Chairman **Gibbons**. Mr. Anthony.

Mr. **Anthony**. I have one question. I was curious about the human nature aspect of your health benefits. I was wondering whether employees were eliminated from their health benefit program when they were terminated from their jobs?

Ms. **York**. Yes.

Ms. **Payne**. Yes.

Mr. **Anthony**. Ms. White, were you terminated from your health benefits?

Ms. **White**. Yes, I was, and one thing, you see, I am not old enough to get the Medicare, so this hurts, you know, because you can't hardly get health benefits.

Mr. **Anthony**. You are caught in the situation of having employer-provided benefits, being unemployed, not being able to afford these benefits, and not old enough to qualify for Medicare?

Ms. **White**. That is right, and I couldn't get another job because the first thing they do is ask you how old you are. [Laughter.]

Mr. **Anthony**. I assume the record will also reflect that Ms. York and Ms. Payne lost whatever health benefits they had. If that is incorrect, could that be corrected for the record?

Mr. **Pease**. Could I ask Mr. Bonanno a question?

Chairman **Gibbons**. Yes, sir.

Mr. **Pease**. Before I ask the question, I would like to commend my colleague, Mr. Jenkins, for inviting us down here and for the very imporant work that he does on the House Ways and Means Committee and on the Trade Subcommittee.

As has been mentioned, I come from a steel and auto industry area, but I also have apparel manufacturing in my area. I note with some surprise that Ohio was the 17th largest State in the Union in terms of wages paid in these two industries. Clearly, our committee is getting into this area and learning more about it, largely because of the efforts of our colleague from Georgia, Mr. Jenkins.

I would just like to ask Mr. Bonanno, could you tell us what percentage of textile and apparel workers are unionized?

Mr. **Bonanno**. A very small percentage in this part of the country. I would say about 15 percent.

Mr. **Pease**. About 15 percent?

Mr. **Bonanno**. Right. I think, Mr. Pease, that the unemployment end of the surge of imports is affecting across the board, so that it affects both union and nonunion, and one large firm who used to deal with Sears had some 40 odd plants, most of them are nonunion, and they have closed more than half of them in this part of the world. So the imports cut across union and nonunion markets.

We hate to see that, by the way, because if they go out of business, they won't be there for us to organize. [Laughter.]

Mr. **PEASE**. On the average, how do the ages compare between union and nonunion shops?

Mr. **BONANNO**. Well, of course, you are asking me from a prejudiced point of view. Union shops are usually higher. Maybe not that much higher, but higher. They keep up with us.

Mr. **PEASE**. I personally am not asking from a prejudiced point of view.

Mr. **BONANNO**. Right. They are higher.

Mr. **PEASE**. Is the number of shops that have been closed and the layoffs been any larger by percentage in your unionized shops that they are elsewhere?

Mr. **BONANNO**. I don't think they are.

Mr. **PEASE**. So essentially, this is a problem that cuts almost evenly across union and nonunion shops.

Mr. **BONANNO**. Yes, as a matter of fact, the fact that the panels, as you will see, represent both union and nonunion points of view.

Mr. **PEASE**. Well, I think that is an important point to make.

Mr. **BONANNO**. This particular problem makes for strange bedfellows.

Mr. **PEASE**. Thank you.

Chairman **GIBBONS**. Thank you. We want to thank the panel for coming and for your testimony.

Mr. **BONANNO**. And we want to thank you, Mr. Chairman, and the committee for your time and patience and your intelligence in handling this problem. Thank you.

Chairman **GIBBONS**. Our next panel consists of Mr. Dan Frierson, moderator, president of Dixie Yarns; Mr. Henry Walker, president of Georgia Textile Manufacturers Association; Dr. Turbak, who is professor of textile engineering, Georgia Tech University; Mr. Richard Monk, who is with West Point Pepperell; Mr. John Boland, Swift Textiles; and Mr. Wallace Bruce of Coats & Clark.

Mr. Frierson, I see that they have you located near the mike there, so why don't I just turn the panel over to you, and you can introduce your panel as you wish for their testimony.

STATEMENT OF DANIEL K. FRIERSON, PRESIDENT OF DIXIE YARN, INC., ON BEHALF OF THE AMERICAN TEXTILE MANUFACTURERS INSTITUTE, INC.

Mr. **FRIERSON**. Thank you, Mr. Chairman.

I will start off by making some brief comments, and then we will go through the panel. My name is Dan Frierson. I am president of Dixie Yarns of Chattanooga, TN. We produce cotton and synthetic yarns for the apparel and carpet industries. We have plants located in Georgia, Tennessee, Alabama, North Carolina, and California.

I appreciate very much the opportunity to be here and testify before you, but more important, I appreciate our Congressman coming down here on Easter weekend. I think that says something very, very good, and we appreciate it very much.

I am here as the representative also of American Textile Manufacturers' Institute, and I am on the board of the institute, chairman of the Cotton Committee and on the International Trade Committee. I am also representing the American Yarn Spinners Association as an officer of that organization and on the board, and chairman of the International Trade Committee of the American Yarn Spinners.

You have already heard testimony about the number of jobs relating to the textile industry, some three-quarter million in the textile segment alone, and the fact that almost 50 percent of them are women and about 25 percent are minorities, and the problems that the small communities face and large communities face when they lose jobs.

I would like to congratulate the previous panel for explaining that so well and so graphically. I think they told the people side of this story about as well as it could be told. I can just assure you that what they said is true, it is tough, but it is real.

You know, I was testifying three weeks ago before the Senate Agricultural Committee. Senator Kaufman asked me how may plants in Mississippi that have been shut down have started back up, and, of course, I had no way of answering that question factually, but my feeling is that very few of those plants will ever start back up, and I think the more important question is, how many more plants will shut down before something is done?

You know, the U.S. Government has had a textile import program for over 20 years, ostensibly protecting equal investment, to maintain a viable productive and competitive domestic textile and apparel industry. However, today I think we all know that that program is not working.

In the last 4 years alone, imports of textile and apparel products has doubled from about 5 billion square yards equivalents to 9.8 billion square yard equivalents and putting it in other terms, the result has been that the import penetration of apparel, apparel products and yarn, has gone from 23 percent of the market to over 50 percent of the market in that 4-year period.

But rather than go through a lot of figures and statistics, I will submit my written report, as others have done, and talk more to the personal things and things that I think will be more pertinent this morning.

My personal experience with Dixie Yarns is we have been tremendously impacted by imports. Last year imports of yarn was up 47 percent. You know, it is very difficult to plan your business when some outside influence has batted the magic swing in 1 year, it is virtually impossible.

Last fall, just 4 months ago, I visited Egypt to get a better understanding of why we were having so much import growth in yarn from that country. I went in a couple of mills over there. The first thing I saw was brand new equipment. Well, it was paid for or at least financed by American taxpayers through the INF and through direct loans, 30-year loans, 5-percent interest, and no interest payment for 5 years. I think all of us would love to get some of those loans.

Not only that, they said they had class employees, they only hire in three shifts, but they ran 7 days a week. They only took a few holidays off every year. I asked them if this wasn't very difficult on their employees? They said their employees were lucky to have a job, and they worked the 7 days.

I also asked them if the plant was profitable. I got together with the Minister of Textiles. All plants, all textile plants were Government owned.

Chairman **Gibbons**. Excuse me, this was in Egypt?

Mr. **Frierson**. Yes, sir.

He assured me that virtually every year, those plants were unprofitable. I said, "Well, why don't you cut back to 5 days operations instead of 7?" And he said, "That is against the law." I asked them how they sold their yarn. In essence, they find out what the world market is and undercut the world market regardless of what it is. They are committed to running their plant 7 days a week regardless of the bottom line consequences. I defy anybody to compare with a situation like that profitably and stay in business.

You know, we at Dixie have had a lot of layoffs recently. We have seen our employees working on short time. As I say, I think the panel right before us described the effects of that very, very well.

I wish each of you in front of us today could spend a day in one of our plants and explain to our employees why we think it is more important, as a country, to have technical jobs in Egypt, the Maldive Islands, Peru, and China than it is to have them in the Ninth District of Georgia. That is a very difficult thing for me to explain. I have talked to our people many times, and there is no good answer to that question.

We have recently laid off about 25 percent of our salaried employees. Several of them had 35 years' tenure with our company. That was a very difficult thing to do but something we had to do if we were going to stay in business.

You know, this has not happened because we are an inefficient industry. The textile industry in this country is the most productive and efficient technical industry in the world. Our company alone has spent in the last 5 years $45 million modernizing our plant and making it efficient, safe, and modern. Our industry has spent over $7 billion doing the same thing.

We also have tried very hard in the export area. A lot of people say what you need to do is export yarn. In the 1970's we became very active in the export markets. As a matter of fact, in 1980, we were the recipient at Dixie Yarns of the Presidential Yield Award for Excellence in Exports. Our exports were growing rapidly, we were doing well. Quite honestly, since that time, our exports are off dramatically, and I think the classic example is the company farm which I imagine you are familiar with. The oldest special company in this country was operating last year, they started in 1807, they were quality manufacturers of corduroy and velvetine fabrics. They have declared bankruptcy recently. The day they declared bankruptcy, the Japanese raised dramatically the price on velvetine fabrics in this country. That is no coincidence.

Let's now turn to the carpet industry. I don't want to take exception to the testimony that was given earlier by Mr. Tanner, but I do want to say that I don't think that things are all well in the carpet industry. The carpet industry was founded and was invented in Congressman Jenkins' district. The technology is American. All of the major gain in this industry from a productivity standpoint and a technology standpoint have occurred right in the Ninth District. Unquestionably, the carpet industry in this country is far more efficient than any carpet industry in the world.

If that is so, it is very hard to understand why 3 years ago we had a favorable balance of trade in carpet. Today we have a negative balance in trade. As a matter of fact, the dollar value of carpet imports have grown twice as high as exports, so you can see we have gone from a favorable position in 3 years to a high unfavorable position. Here again, I don't think it is due to overpayment of employees. I don't think it is due to the lack of efficiency.

We also are having trouble exporting carpet because of the restrictions in many countries, high tariffs in many countries, other nontariff barriers. In addition, we are very convinced that particularly in Europe, there are few subsidies being accorded the carpet industry, particularly in Belgium.

You know, we have had to close a plant in the last year, and I would just like to make a comment on that. It was in the carpet business, carpet and yarn business. Our plant located in Exeter, CA. I doubt anyone here knows where Exeter, CA, is. It is a small town. We have had a dramatic impact on that town, I can tell you. No one else is located there. No one else has brought development and those employees are without jobs today. It does have a stunning impact on the smaller community.

I would like to just address, Congressman Anthony, a question you asked in regard to value of dollar and impact it has had. The HMI has recently done a study which we will make available to you next week. It certainly has had an impact, but I think it is in the range of 20 to 30 percent of the total impact of import as it relates to jobs, but certainly the dollar, fixing that would not fix the problem that we have in the textile and apparel industry today. That report will be submitted and made a part of the record.

Mr. Chairman, quite frankly, we hope that the administration will live up to their promise as it relates to the growth in textile imports and the rate of growth in the domestic textile economy. We thought that was something that we could live with. We are not asking you to cut out foreign trade, this is an appropriate outlook, but to manage the trade and to keep these new swings from occurring.

Obviously, that hasn't happened. It has been most unsatisfactory from our vantage point, and since it hasn't happened, we are asking you in Congress to help us and to do something for us, and certainly in the form of H.R. 1562, the so-called Jenkins bill, you have started along those lines, and we encourage you and thank you for what you are doing in that effort. You now have over 190 sponsors, cosponsors to that bill, and I congratulate you for those efforts.

You know, while the administration does have most of the tools today to take care of the problems we see, we do think it is also important that the policing of this system originate in the country, and that we not rely on each country to live up to what it says it is going to do.

I would just like to say, in closing, that I do thank you very much for being here. We appreciate it and certainly hope that you will consider what we are saying, we know you will, and give us any feedback you can to help others in trying to compete in this worldwide economy.

[The prepared statement follows:]

STATEMENT OF DANIEL K. FRIERSON, ON BEHALF OF DIXIE YARN, INC., AND THE AMERICAN TEXTILE MANUFACTURERS INSTITUTE, INC.

Mr. Chairman, my name is Dan Frierson. I am President of Dixie Yarn, Inc. of Chattanooga, Tennessee. We produce cotton and synthetic yarn.

I appreciate the opportunity to appear here with a number of people from the fiber, textile, and apparel, complex. I am a member of the Board of Directors of the American Textile Manufacturers Institute, Inc. I am also Chairman of the ATMI Cotton Committee and a member of the ATMI International Trade Committee. The American Textile Manufacturers Institute, (ATMI), is the central trade association of the American textile industry representing about 80% of the domestic industry for the spinning, weaving, knitting, and finishing of cotton, wool, silk, and manmade fibers and 90% of the cotton system spindles. ATMI provides governmental, economic, international trade, occupational safety and health, statistical, and public relations and other services to the industry.

The American textile industry represents a major industrial segment of the nation's economy, approximately 753,000 employees, including 47 percent women and 25 percent minorities. The textile industry, like many other American industries today, is facing ever increasing economic challenges at home and from overseas.

The industry's very low average profit after taxes of 2.7 percent from 1980 to 1984 as compared to 4.4 percent for all manufacturing, places it in a vulnerable position concerning increased operating costs.

The United States government has had a textile import program for over 20 years ostensibly reflecting its commitment to maintain a viable, productive and competitive domestic textile and apparel industry. However, today that textile import program is simply not working.

The importation of textiles and apparel at a rate far exceeding the domestic market growth rate continues to be a critical problem. In the past four years imports have doubled from around 5 billion square yard equivalents in 1980 to 9.8 billion square yard equivalents in 1984. This increase took place while the U.S. market was not growing at all. The result has been increased import penetration in apparel and apparel fabrics and yarn from 23 percent in 1980 to over 50 percent in 1984. This has brought about a decline in employment of some 200,000 workers and threatens the viability of the entire industry.

Mr. Chairman, from my own personal experience in the manufacture of cotton and synthetic yarn production, the effect imports have had on this segment of the industry has been devastating. The increase in yarn imports alone was 47 percent increase in 1984 over 1983. This increase represents 41,000 direct job opportunities lost in this one sector. At Dixie Yarns, for example, we have had to curtail operations at a number of our facilities. This has resulted in a loss of jobs of scores of our employees and short time status for many more. We are running presently at—percentage of our capacity. And we are productivity wise an extremely efficient company. Over the last five years we have reinvested over $7 billion in new plant and equipment to keep up with the state of the art in our industry.

Within the textile industry as a whole, the unprecedented surge of textile and apparel imports these last several years is causing many companies to rethink its long term reinvestment plans. This is not a healthy situation.

Mr. Chairman, quite frankly, we had hoped that the present Administration would live up to its promises to relate the growth of textiles to the growth of the domestic market. We believe that they have the tools; they are just not using them. After almost four years, we can see that relief is not going to be forthcoming.

Since the textile program is not working to deal with these import surges, we are asking Congress to step in and, through legislation, see to it that the textile program works as envisaged. Those of us out here in the country support the legislation many of you have sponsored to adequately deal with this problem. Mr. Chairman, that bill is H.R. 1562. It has over 180 sponsors in the House.

Mr. Chairman, we appreciate the opportunity that you have provided us to testify on this vital issue. We appreciate your taking the time and those of the members of the subcommittee to come out here in the field to see first hand the problems that we face in this industry. Thank you.

Mr. **Frierson**. I would now like to introduce Mr. Henry Walker.

STATEMENT OF J. HENRY WALKER III, PRESIDENT, GEORGIA TEXTILE MANUFACTURERS ASSOCIATION

Mr. **Walker**. Thank you, Dan. Mr. Chairman and members of the committee, let me add my thanks to you for this opportunity to bring our concerns and our suggestions forward. We welcome you to Georgia and appreciate your being here.

I have submitted a written statement plus supporting information. I will skip around it and comment as I go.

Our industry has not been able to share in the new prosperity of the current economic recovery despite its investment of billions of dollars in high tech, state-of-the-art equipment, but is instead engaged in a fierce battle for survival, and without the enforcement of trade laws this battle may be lost.

The casualties again will be the people of Georgia where the U.S. Department of Labor reports 174,000 employees in the textile and apparel industry, and over the United States where over 2 million people are employed in plants in all 50 States, plus the District of Columbia, Puerto Rico, and the Virgin Islands. I have submitted that as addendum 1, the 1983 report of the U.S. Department of Labor. It shows the wages earned in various States. I submit it purely and simply to show the wide spread of the textile industry in our country.

These 2 million employees plus the 2 million people who are employed in allied, supplier, and service industries will be those who suffer.

As a representative of Georgia in the Georgia textile industry, let me say that the annual payroll in Georgia is now almost $2.5 billion in our textile and apparel industry. The loss of this payroll would cause a disastrous economic ripple effect in the State of Georgia.

You have seen or heard these figures before, but just since the first of the year, announcements of mill shutdowns and permanent reductions in textile plant capacity will mean the loss of jobs for 2,140 Georgia textile workers. My addendum No. 2 there lists these plants, their location and the number of employees affected.

Let me also add that there have been others since that time on a local basis. Let me refer to something that Dan has mentioned talking about a plant in our community employing about 250 people. I have talked to many of those folks, and we have tried to put as many as possible to work in our plant, but I want to tell you it is tough when you start to talk to someone who is out of work and who needs work and wants desperately to work and cannot find a job.

We lost over 550 jobs. Just last week, Carters shut down their base operation in Griffin, employing 125. We have felt these effects in our community.

I have added an addendum No. 6 which is a talk prepared for another group which expands on this subject and several others that I won't mention this morning, but let me just speak out of our company for a minute. Dundee Mills is the largest employer in our area. In our county, we employ over 2,600. As an illustration of the import growth and threat, let me present a few figures on the towel situation, and let me add that imports are a most serious problem with us and is gradually becoming more serious.

In our towel field, many plants are running curtailed schedules, short time, plants have been shut down, particularly in the Carolinas, and we are suffering from this problem.

Attached as addendum 3 there, I have a copy of page 5 of the Department of Commerce report entitled "Sheets, Pillowcases and Towels for Third Quarter, 1984." It lists the results of the second and third quarters in 1984. That is the last report I have. You will note in the last two columns that the towel percent imports to apparent consumption in this country in quantity was 25.8 percent in the second quarter, 26.7 percent in the third quarter and the percent in value was 15.1 and 16 percent.

Now, these figures do not include small towels, such as bar mops, wiping rags, shop rags, and the like. They are covered under another category, but imports have completely taken this market. I don't believe there is a manufacturer in this country now making these products.

Mr. FRENZEL. You are going too fast. Can you tell us what page you are on?

Mr. WALKER. Excuse me, on page two, at the bottom.

Mr. FRENZEL. The statistics you were just quoting.

Mr. WALKER. Pardon?

Mr. FRENZEL. The statistics you were just quoting, sir, could you tell us where they are?

Mr. WALKER. The statistics are addendum 3.

Chairman GIBBONS. We are trying to follow you, but sometimes we can't keep up with you.

Mr. WALKER. I am sorry.

Chairman GIBBONS. That is OK. We will interrupt you if we lose you again.

Mr. WALKER. In the interest of time. I have a lot to say. I will slow down.

Addendum 3 lists the percentage of imports, and if you look at the last two columns there, the arrows above the two, they list the percent of imports.

Continuing, let me say that we at Dundee once had a large production in these small towels. We make none now. Let me also add that these were the first towels that came into this country as imports, and what has happened now is that the other nations advance in their technical industry, they move up a notch in price and quality and some other country comes into this area. Of course, in the long run, they will move up. They have overtaken that market completely in the United States.

Moving on to the top of my statement, page three, the U.S. International Trade Commission figures show that home textile imports, of which towels are a part, rose from $273.2 million in 1983 to $416.6 million in 1984. That is a 52.5 percent gain in that one field.

Attached as addendum 4 there is a table which was compiled by the same agency which covered home textile and towel imports. You will note the tremendous growth of well over 100 percent by many of these countries in the home textile field. Towels, the total increase was 43 percent in 1984 over 1983, and that is 38 percent of the home textile imports. There is just no way the U.S. market can digest that kind of growth in towels and home furnishings. Some of them will have to go.

Without going into the subject, I think it is obvious that our international trade policy is not working when you note that 15 of our 20 major manufacturing areas are running a negative trade balance. This, too, is covered in the addendum 6, which I have added and I hope you will look at.

Time only allows me to mention a few possible solutions. The term "free trade" must be considered in the light of "fair trade." The current trade agreements apparently are not being enforced. Better administration would help.

The labeling law which went into effect last December will help if industry can educate the public to buy American. We have what is described as "crafted with pride" in the U.S. program. I have added addendum 5 which describes in detail, and you will find more in this addendum 6 that talks about this too.

Let me also say that the Textile and Apparel Trade Enforcement Act of 1985, H.R. 1562, if passsed, would correct some of the past excessive growth and control growth in the future. It is desperately needed. We certainly would seek your support.

In closing, just a couple of things. Let me assure you that the textile industry is doing its part to provide high quality, desired styling, desired colors, delivery, and service to our customers. We work hard at it, and I feel we are successful at it. We are working to help ourselves.

I want to conclude by mentioning a report that is labeled addendum 7. This is a survey of textile industry executives and it is included in full there. Fifty-nine companies participated, 30 were considered industry giants, and 29 were considered small to midsize. About midway on page two, addendum 7, you will note that 100 percent of those responding listed three items as the major problems of our industry.

They are foreign competition as the most serious problem, government regulation as the second most serious problem, and the value of the dollar as the third most serious.

Our industry has no control over any of these problems. I hope you will take time to look over this report. It contains many suggestions as to the thinking of those who lead our industry.

Let me say to you again that we appreciate this opportunity to bring this before you, and I appreciate your coming to Georgia.

Thank you.

Chairman GIBBONS. Thank you.

[The prepared statement follows:]

STATEMENT OF JOE D. TANNER, COMMISSIONER, GEORGIA DEPARTMENT OF LABOR

I am Henry Walker, President of the Georgia Textile Manufacturers Association and Vice President and General Manager of Dundee Mills in Griffin, Georgia.

Thank you for this opportunity to bring our concerns and suggestions before you.

Nothing would be more pleasing than to report that the textile industry in Georgia and across the United States had shared in the prosperity of the current economic recovery and that we looked to the future with confidence.

Unfortunately, the industry has not been able to share in this new prosperity despite its investment of billions of dollars in high-tech, state-of-the-art equipment, but is instead engaged in a fierce battle for survival, and without the enforcement of trade laws, the battle may be lost.

The casualties will be in Georgia where the U.S. Department of Labor reports 174,000 employees in the textile and apparel industry, and over the United States where over two million are employed in plants in all 50 states plus the District of Columbia, Puerto Rico, and the Virgin Islands. The wages earned are listed by states on ADDENDUM-1. These two million employees plus the two million people who are employed in allied, supplier and service industries will be those who suffer. As you will note from ADDENDUM-1, the annual payroll in Georgia is in excess of 2-1/4 billion dollars. The loss of this payroll would cause a disastrous economic ripple effect in Georgia.

Just since the first of the year, announcements of mill shutdowns and permanent reductions in plant capacity will mean the loss of jobs for 2140 Georgia textile workers. That number will probably increase substantially by the end of the year. These plants and curtailments are listed in ADDENDUM-2.

Looking at textile employment from a National perspective, job losses last year numbered nearly 30,000 and totaled 200,000 since 1980. If the current imports are left unchanged, the American Fiber, Textile and Apparel Industry will cease to exist by about 1990. It is a trend that could alter the very fabric of Georgia and America. As ADDENDUM-6, I have attached a talk prepared for another group that expands on this subject and others I will mention.

Our company, Dundee Mills, manufactures towels and baby products. As an illustration of the import growth and threat, let me present a few figures on the towel situation. The general feeling in the industry is that home furnishings are not as seriously impacted as certain other items such as apparel, apparel fabrics and yarn. Imports are a most serious problem with us and rapidly becoming more serious.

Attached as ADDENDUM-3, is a copy of page 5 of the Department of Commerce report entitled Sheets, Pillowcases and Towels for Third Quarter, 1984. It lists results of the second and third quarters in 1984. You will note in the last two columns that the towel percent imports to apparent consumption in quantity was 25.8% in the second quarter and 26.7% in the third quarter while the percent in value was 15.1% and 16.0%. These figures do not include small towels such as bar mops, wiping rags, shop rags and the like. Imports have completely taken the market. Very few, if any, are now manufactured in this country.

U.S. International Trade Commission figures show that home textile imports rose from $273.2 million in 1983 to $416.6 million in 1984 - a whopping 52.1/2% gain.

Attached as ADDENDUM-4, is a table compiled by the same agency covering home textile and towel imports. Please note the tremendous growth of well over 100% for many countries in home textiles, 1983-1984. In towels note Brazil at 129%, China at 68%, India at 28% and on and on for a total increase of 43%. Towel imports of $158.5 million are 38% of home textile imports. There is no way the United States market can digest that kind of growth in towels and home furnishing.

Without going into the subject, it is obvious that our International trade policy is not working when you note that 15 of our 20 major manufacturing areas are running a negative trade balance. This, too, is covered more fully in ADDENDUM-6.

How can these trends be reversed?

My time only allows me to mention some possible solutions, but they are covered in ADDENDUM-6. The term "Free Trade" must be considered in the light of "Fair Trade". The current trade agreements are not being enforced. Better administration would help. If properly enforced, the Country-of-Origin regulations will stop much of the circumvention of our agreements.

The labeling law which went into effect last December will help if industry can educate the public to "Buy American". The "Crafted With Pride" program is covered in ADDENDUM NUMBERS 5 AND 6. "The Textile and Apparel Trade Enforcement Act of 1985" (H.R. 1562) if passed, would correct past excessive growth and control growth in the future. It is desperately needed. We seek your support.

Let me assure you that the textile industry is doing it's part to provide high quality, desired colors, desired styling, delivery, and service to our customers. We are working to help ourselves.

I want to conclude by mentioning a report which is labeled ADDENDUM NUMBER-7. This is a survey of textile industry executives. It is included in full. Fifty-nine companies participated - 30 considered industry giants and 29 considered small to mid-size. About midway of page-2 you will note that 100% of those responding listed three items as the major problems of our industry. They are:

> Foreign competition as the most serious problem.
> Government Regulations as the second most serious,
> and the value of the dollar as the third most serious.

Our industry has no control over any of these problems. I hope you will take the time to look over this report. It contains many suggestions as to the thinking of those who lead our industry.

Again, thank you for this opportunity to appear before you.

ADDENDUM-1

U.S. TEXTILE & APPAREL WAGES - 1983
[illegible]S. Department of Labor)

STATE	TEXTILES	APPAREL	COMBINED WAGES TEXTILES & APPAREL
Alabama	$553,686,995	$537,882,333	$1,091,569,328
Alaska	155,192	634,433	789,625
Arizona	4,039,701	50,714,358	54,754,059
Arkansas	53,366,102	101,731,291	155,097,393
California	211,269,752	1,206,364,683	1,417,634,435
Colorado	4,699,755	33,265,074	37,964,829
Connecticut	109,175,672	123,033,445	232,209,117
Delaware	7,308,371	12,779,456	20,087,827
Dist.Columbia	624,087	482,955	1,107,042
Florida	28,861,836	316,995,919	345,857,755
Georgia	1,571,569,003	697,548,017	2,269,117,020
Hawaii	2,784,932	24,655,341	27,440,273
Idaho	210,675	1,954,007	2,164,682
Illinois	44,541,481	252,475,032	297,016,513
Indiana	10,272,117	104,374,231	114,646,348
Iowa	13,995,038	47,336,187	61,331,225
Kansas	160,285	39,475,028	39,635,313
Kentucky	78,223,911	272,619,021	350,842,932
Louisiana	20,445,498	82,195,648	102,641,146
Maine	95,379,277	55,135,786	150,515,063
Maryland	14,076,319	168,348,770	182,425,089
Massachusetts	349,631,948	421,503,328	771,135,276
Michigan	43,039,951	430,276,614	473,316,565
Minnesota	33,378,461	36,007,118	69,385,579
Mississippi	76,883,748	346,223,380	423,107,128
Missouri	10,200,615	278,580,067	288,780,682
Montana	----	5,351,730	5,351,730
Nebraska	2,278,160	17,856,304	20,134,464
Nevada	1,146,800	1,891,792	3,038,592
New Hampshire	58,735,096	31,514,187	90,249,283
New Jersey	279,827,072	632,526,950	912,354,022
New Mexico	12,720,824	18,064,998	30,785,822
New York	500,763,275	2,208,060,902	2,708,824,177
North Carolina	3,170,323,094	876,918,149	4,047,241,243
North Dakota	5,169,790	2,295,132	7,464,922
Ohio	82,737,021	219,996,699	302,733,720
Oklahoma	16,229,460	92,537,306	108,766,766
Oregon	24,105,723	31,914,752	56,020,475
Pennsylvania	502,630,454	1,180,375,589	1,683,006,043
Puerto Rico	29,430,546	238,219,612	267,650,158
Rhode Island	165,225,931	40,628,991	205,854,922
South Carolina	1,767,944,456	461,628,228	2,229,572,684
South Dakota	20,387	16,381,217	16,401,604
Tennessee	338,442,915	632,658,929	971,101,844
Texas	73,924,153	676,693,354	750,617,507
Utah	996,326	55,401,813	56,398,139
Vermont	12,123,671	17,741,744	29,865,415
Virginia	604,533,607	299,822,682	904,356,289
Virgin Islands	150,156	460,305	610,461
Washington	12,403,002	73,774,312	86,177,314
West Virginia	8,116,613	39,748,497	47,865,110
Wisconsin	66,006,820	83,605,499	149,612,319
Wyoming	----	440,342	440,342
TOTAL	$11,073,966,074	$13,599,101,537	$24,673,067,611

ADDENDUM-2

Just since January 1, 1985 the following Georgia textile mills have announced permanent shutdowns or curtailments:

Company	Location	# of Employees Affected
- Reeves Brothers	Eastman	350
- Mount Vernon Mills	Calhoun	260
- Swift Textiles	Columbus	150
- WestPoint Pepperell	LaGrange	135
- Milliken & Company	Gainesville	300
- Milliken & Company	Manchester	350
- BF Goodrich	Thomaston	350
- Thomaston Mills	Thomaston	200
- The Jefferson Mills	Crawford	45
		2,140 Total

2,140 Georgians -- the most productive and efficient textile workers in the world -- have been permanently laid-off due to the flood of imports from countries with far less efficient workers.

ADDEMDUM-3

Table 4. SHIPMENTS, EXPORTS, IMPORTS, AND APPARENT CONSUMPTION OF SHEETS, PILLOWCASES, AND TOWELS

(Quantity in 1,000 dozens; value and calculated import duty in $1,000)

Product code	Product description	Manufacturers' shipments		Exports of domestic merchandise[1]			Percent exports to manufacturers' shipments		Imports for consumption[3]		Apparent consumption[4]		Percent imports to apparent consumption	
		Quantity	Value f.o.b. plant	Quantity	Value at port	Estimate producers' value[2]	Quantity	Value	Quantity	Value[3]	Quantity	Value	Quantity	Value
	THIRD QUARTER 1984													
22110 00 22219 00 22920 00 22390 90pt.	Sheets and pillowcases..	7,026	281,336	108	8,598	7,768	1.5	2.8	251	10,061	7,170	283,629	3.5	3.5
22119 00 22310 15 23029 00	Terry woven towels......	11,971	246,136	144	6,431	5,810	1.2	2.4	4,318	45,824	16,145	286,150	26.7	16.0
	SECOND QUARTER 1984													
22110 00 22219 00 22920 00 22390 90pt.	Sheets and pillowcases..	8,203	324,520	119	8,713	7,872	1.4	2.4	223	10,691	8,307	327,339	2.7	3.3
22119 00 22310 15 23029 00	Terry woven towels......	11,952	253,106	131	6,261	5,657	1.1	2.2	4,119	44,110	15,940	291,559	25.8	15.1

Note: For comparison of Standard Industrial Classification codes, Schedule B export numbers, and TSUSA import numbers, see table 5 in the first quarter 1984 report, MQ23X(84)-1, issued June 1984.

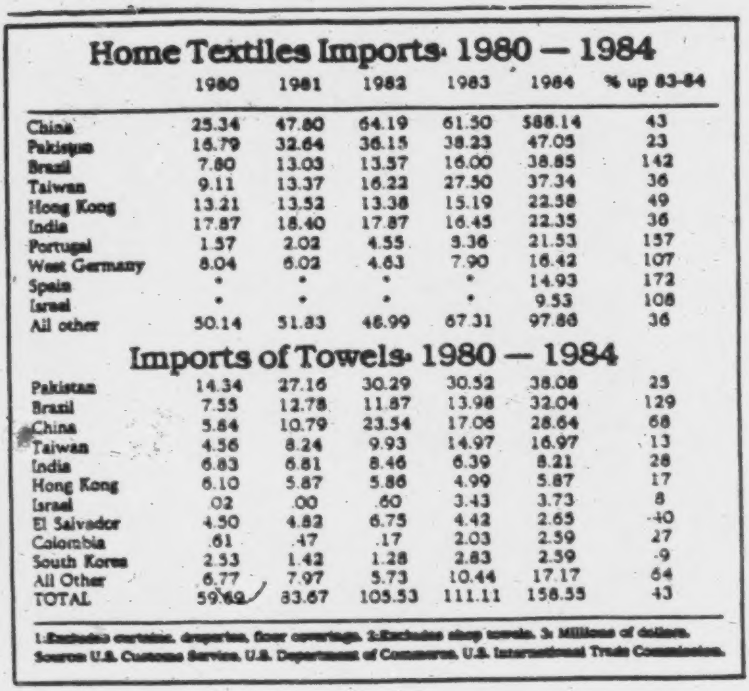
[1] Source: Bureau of the Census report EM 546, U.S. Exports.

[2] These values were derived by use of adjustment factors to exclude freight, insurance, and other charges incurred in moving goods to the port of export. This adjustment is made to convert the values to an approximation of the producers' value of exported goods. Current adjustment factors (.9035 for industry group 2392) are based on data for 1981 which are published in M81(AS)-5, Origin of Exports of Manufactured Products, appendix B.

[3] Source: Bureau of the Census report IM 145-X, U.S. Imports for Consumption and General Imports.

[4] Apparent consumption represents new domestic supply and is derived by subtracting exports from the total of manufacturers' shipments plus imports.

ADDENDUM-4



Home Textiles Imports· 1980 — 1984

	1980	1981	1982	1983	1984	% up 83-84
China	25.34	47.80	64.19	61.50	588.14	43
Pakistan	16.79	32.64	36.15	38.23	47.05	23
Brazil	7.80	13.03	13.57	16.00	38.85	142
Taiwan	9.11	13.37	16.22	27.50	37.34	36
Hong Kong	13.21	13.52	13.38	15.19	22.58	49
India	17.87	18.40	17.87	16.45	22.35	36
Portugal	1.57	2.02	4.55	9.36	21.53	157
West Germany	8.04	6.02	4.63	7.90	16.42	107
Spain	*	*	*	*	14.93	172
Israel	*	*	*	*	9.53	108
All other	50.14	51.83	48.99	67.31	97.88	36

Imports of Towels· 1980 — 1984

	1980	1981	1982	1983	1984	% up 83-84
Pakistan	14.34	27.16	30.29	30.52	38.08	25
Brazil	7.55	12.78	11.87	13.98	32.04	129
China	5.84	10.79	23.54	17.06	28.64	68
Taiwan	4.56	8.24	9.93	14.97	16.97	13
India	6.83	6.81	8.46	6.39	8.21	28
Hong Kong	6.10	5.87	5.86	4.99	5.87	17
Israel	.02	.00	.60	3.43	3.73	8
El Salvador	4.50	4.82	6.75	4.42	2.65	-40
Colombia	.61	.47	.17	2.03	2.59	27
South Korea	2.53	1.42	1.28	2.83	2.59	-9
All Other	6.77	7.97	5.73	10.44	17.17	64
TOTAL	59.62	83.67	105.53	111.11	158.55	43

1:Excludes curtains, draperies, floor coverings. 2:Excludes shop towels. 3: Millions of dollars.
Source: U.S. Customs Service, U.S. Department of Commerce, U.S. International Trade Commission.

ADDENDUM-5

WHAT'S THE ISSUE?

You, as a consumer, are being shortchanged. The quality, price and fashion values of American-made textiles and apparel are being swept aside as foreign imports flood American markets.

America's domestic manufacturing capacity is threatened, as well. Hundreds of thousands of job opportunities are being lost. And competition suffers in the marketplace.

The American textile and apparel industry faces the greatest threat in its 200-year history.

WHAT'S BEING DONE ABOUT THIS?

American industry associations, including man-made and natural fiber producers, a broad array of textile and apparel-manufacturing groups and industry labor unions, have created "Crafted With Pride in U.S.A." It's a nationwide effort to increase public awareness of the high quality, dollar bargains and fashion values available in American textile and apparel products.

Right at the center of this program is you, the consumer, who is concerned more than ever with quality and value. American textiles and apparel offer both and much more. Virtually all the modern improvements and inventions in fibers, textiles and clothing were born in the United States: wash and wear…permanent press…soil release…flame retardants…stretch fabrics…fabrics to guard against heat and cold…and even bullet-proof fabrics.

Fiber suppliers have devoted millions of dollars to research, and the textile industry has added even more to make it the most productive, efficient and innovative anywhere in the world. And for you, the consumer, apparel remains the biggest bargain of all. From 1967 through 1983 annual apparel consumer price increases averaged only 5.1 percent, while the annual increase for all consumer prices averaged 12.9 percent.

HOW BIG IS THE PROBLEM?

Imagine stretching a bolt of fabric to the moon. That's 238,857 miles away. Now imagine that same bolt of fabric falling back to the earth and extending three-quarters of the way back up to the moon. That's how much textiles and apparel—10.3 billion square yards—will be imported into the United States this year. Enough to wrap 16 belts around the earth's equator with enough left over for another belt that wouldn't quite fit.

Twenty-five years ago you could walk into the average clothing department and find fewer than four imported garments for every 100 made in America. But today:

- 37 out of 100 children's playsuits are imported;
- 58 out of 100 girls' and women's sweaters are imported; and
- 68 out of 100 men's cotton sportscoats are imported.

The list goes on and on. It all adds up to a projected $19 billion in textile and apparel imports for 1984, compared to a little over $4 billion a decade ago. From 1973 to 1983 employment in the industry dropped 23 percent, putting more than a half-million men and women out of work. At least that many more jobs may be lost in the next ten years.

When the competitive abilities of American manufacturers are threatened, foreign producers may gain substantial control of American markets. And then prices rise. It's already happened to steel, autos, electronics and machine tools.

America's plants close down. American workers lose jobs. Retailers lose customers. Unemployment payments and welfare expenses go up. Fewer products are on the market. Everybody suffers.

WHAT CAN YOU DO?

We Americans have the ingenuity and dedication to ou think and outproduce any workers in the world. You ca help support America's oldest manufacturing industry ir the following ways:

- The next purchase you make—and every one thereafter—stop, think and ask: "Was it made in America?"
- Look for the "Crafted With Pride in U.S.A." or other "Made in America" label.
- Tell merchants you prefer American-made products.
- Ask merchants to stock, identify and promote American textile and apparel products.
- Inform merchants that buying American-made garments and textile products creates jobs and fuels the economy.
- Urge your elected representatives in Washington to actively support U.S. fair trade policies.
- If you live or work in an apparel or textile town, get involved in "Crafted With Pride" rallies. Involve your family, friends and neighbors, too.
- And remember: Buy textile and apparel product "Crafted With Pride in U.S.A." It will keep Ameri can jobs in America and keep America healthy and strong.

To start a "Crafted With Pride" program in your busines or community, or for more information, contact the "Crafted With Pride in U.S.A." campaign at 6 East 43rd Street, New York, NY 10017; (212) 916-8500.

ADDENDUM-6

THE OUTLOOK FOR TEXTILES IN GEORGIA AND THE U. S.

The Industry in Georgia and the U.S.

Nothing would be more pleasing than to report that the textile industry, in Georgia and across the U.S., had shared in the prosperity of the current economic recovery and that we looked to the future, the year 2000, with confidence.

Unfortunately, the industry has not been allowed to share in this new prosperity despite its investment of billions of dollars in high-tech, state-of-the-art equipment, but is instead engaged in a fierce battle for survival. And, without the enforcement of trade laws, the battle will be lost.

The casualties -- in Georgia, where the industry is the state's largest manufacturing employer, more than 175,000 jobs tied directly to textiles and apparel, and, two million more (one in every ten manufacturing jobs, and more than steel and automobiles combined) in facilities and on farms spread across 48 of the 50 states. And, that doesn't take into account the more than two million people who are employed in allied, supplier and service industries.

Virtually every major industry is affected by imports. Commerce Department figures show a negative trade balance in 15 of 20 major manufacturing areas it tracks. The textile and apparel trade deficit alone in 1984 was $16 billion, representing 13% of the total U.S. merchandise trade deficit.

Steel and automobiles are highly visible examples; yet, a much larger industry, the fiber, textile and apparel complex is now floundering under the weight of a rapidly increasing import burden. In fact, textile and apparel imports have doubled since 1980. And, the International Trade Commission, in a new report, predicts that over the next three years burgeoning imports of Chinese textiles and apparel will displace U.S. production by almost $4 billion in terms of value, and lead to tens of thousands of lost American jobs. Add to this the imports of the other nations of the world and you can readily understand why we characterize the import situation as a crisis.

Just since the first of this year, announcements of mill shutdowns and reductions in plant capacity will mean the loss of jobs for 2,100 Georgians. And, that number will increase substantially by the end of the year. Looking at textile employment from a national prespective, jobs losses last year numbered nearly 30,000 and 200,000 since 1980. In fact, if the current trend continues, a certainty if current import policies are are left unchanged, the American fiber, textile and apparel industry will simply cease to exist by the early 1990's. Its a trend that could alter the very fabric of Georgia and America.

The textile and apparel industries are basic to all nations. Every developing country views the building of a textile industry as being in its national interest, not only to meet domestic demand, but as a means of generating foreign exchange.

Since initial capital requirements in apparel production, and to a lesser degree, textile manufacturing, can be relatively lower than in other industries, and since the more labor-intensive nature of the industry puts large numbers of people into the mainstream of the economy, this industry is particularly appealing to countries with scarce capital and abundant, cheap labor that are just beginning the development process.

The result is that many economic decisions -- such as where, when and to what extent to expand production -- are made for non-economic reasons such as national pride and the political need to maintain high employment at any cost.

For this reason, the industry has traditionally existed in virtually every country in the world. Also, the global industry has been, and is today, characterized by a whole host of direct and indirect government subisdies, by high tariff barriers, by customs and licensing barriers, by import quotas and by outright import prohibitions.

A few examples of the tariff and non-tariff barriers are:

Korea - The Textile Trade Association must approve import licenses. Approval is denied if a Korean textile manufacturer produces the product that the U.S. manufacturer seeks to export.

Taiwan	- Prohibitive tariffs ranging from 50% to 100% of the value of the textile product.
Brazil	- Refuses import permits for textile products manufactured in Brazil.
Europe	- Preferential trading arrangements among EEC countries that discriminate against U.S. textiles.
India	- Textile imports are prohibited.

International Trade Management

In the post-World War II era, the General Agreement on Tariffs and Trade, commonly known as GATT, has been the basic structure through which nations in the free world have sought to lower tariffs, promote trade and help developing countries strengthen their economies. GATT was created in a climate marked by American supremacy in the world economy and the U.S. policy of lending a helping hand to less developed nations.

Under GATT, it has always been recognized that textiles and apparel are different and must be treated differently by the trade management process.

In 1973, after lengthy negotiations, the first Multi-Fiber Arrangement (MFA), designed to provide orderly growth and increase the market share for developing countries, was agreed to by the major GATT members. Since then the MFA has been extended in 1977 and 1981.

Unfortunately, despite the best intentions of MFA, the orderly international market in fiber, textiles and apparel has simply failed to materialize, and the Big Five -- the People's Republic of China, Taiwan, South Korea, Hong Kong and Japan -- control a disproportionate market share. And, the U.S. industry is being steadily devastated:

O U.S. textile and apparel imports have doubled since 1980.

- 0 Total imports of cotton, wool, man-made fiber mill products and apparel have increased by 123 percent in 10 years.

- 0 Import growth at 25 percent in 1983 and 32 percent in 1984 is causing massive layoffs, plant closings, business failures and community hardship.

- 0 The Big Five, accounting for 53 percent of U.S. textile and apparel imports, prevent the other 141 countries from participating meaningfully in the U.S. market.

Free Trade and Reality

The highly competitive nature of the U.S. fiber, textile and apparel industry has always served it and the nation well. The events of the past few years only bear that out. Capital investment has been extraordinary and productivity has increased by 45 % since 1974 -- a level unmatched by any other manufacturing industry. Both of these factors would contribute to a reasonably good financial outlook for surviving firms were it not for the prospect of growing penetration of the U.S. market by foreign competitors.

If these competitors were simply foreign companies, a case could be made that the American firms were simply not up to the challenge and have not earned the right to ask for relief. But, it is universally recognized that the U.S. textile industry is the most productive and efficient in the world -- 30% more productive than Japan's, for example. However, the fact of the matter is that U.S. companies must compete against foreign governments (China, for example) or partnerships between foreign firms and their governments (Japan, Incorporated).

MITI, Japan's lengendary Ministry of International Trade and Industry, serves as a model for many developing countries to provide the combination of capital formation, subsidies, tax relief, import restrictions and long-term commitment to "compete" in the global marketplace.

The government of China, unburdened by any notion of a private sector, provides the national commitment, 16-cent-per-hour wages and subsidies to create an industry at any cost.

Meanwhile, our government maintains a philosophically worthy, but woefully outdated commitment to free trade in a world where free trade is a myth. The reality is a world where managed trade is the norm, and blatant combinations of export subsidies and import restrictions are the wave of the future.

If United States policies in international trade remain unaltered, the prospects for the domestic fiber, fabric and apparel industry are bleak.

Arguments that laid-off workers can be retrained or can move to areas where jobs are available (if there are, in fact, such areas) simply do not mesh with reality. A study at one plant in the Southeast showed that 70 percent of laid-off employees are now working at the federal minimum wage -- two dollars an hour lower than the textile plant's minimum.

No amount of retraining can handle the huge numbers of layoffs facing textile and apparel workers and retraining assumes the availability of jobs.

Further, since many textile and apparel jobs go to individuals whose families are employed in other local industries including agriculture, moving "to where the jobs are" simply isn't feasible. A large percentage of the employees in the textile and apparel complex are women and minorities -- far more than any other manufacturing industry.

The only "growth" industry capable of absorbing these workers is the service sector, where wages almost invariably run at the federal minimum or slightly above. At best, if current policies continue, we will have imported a lower standard of living for the majority of workers and their families. At worst, they face the prospect of placing an added burden on American taxpayers.

In addition, large numbers of workers in support industries which build textile machinery and agricultural equipment, transport the goods or produce fiber for textiles, face layoofs or termination as well.

Dozens of communities across Georgia and the nation will see their economies and their tax bases eroded or destroyed if the current trends in textile imports are not reversed.

Reversing the Trends

How can these trends be reversed ... what are the solutions to the textile trade crisis?

The main thrust of our efforts will be enactment of "The Textile and Apparel Trade Enforcement Act of 1985" (S. 680 and H.R. 1562) introduced on March 19. The principal sponsor in the House is Georgia's own "Mr. Textiles", Congressman Ed Jenkins. He's been joined on the bill by every member of Georgia's Congressional delegation and more than 160 other Congressmen. The Senate bill is co-sponsored by Senators Nunn and Mattingly and 32 of their colleagues.

Essentially, this legislation seeks to achieve the objectives of the Multi-Fiber Arrangement by providing orderly and non-disruptive growth of imports of all fiber, textile and apparel products. This is accomplished by setting limits on imports which would have existed if import growth since 1980 had been limited to the 6% growth rate contemplated by the MFA. Thereafter, imports would be permitted to grow by the same percentage that the U.S. textile market grows. Canada and Western European countries would not be covered by the legislation.

Of course, there are those who would argue that enactment of this legislation would invite retaliation. But I submit that we are now subjected to constant "retaliation" from foreign nations which are already excluding or strictly limiting U.S. exports. The European Economic Community, to protect its industries, set strict limits on imports of textiles without adverse effect. China and its vast market, once the major concern of those who feared retaliation, is now a net exporter of cotton and is near becoming a net exporter of grain and China, like most other countries, buys where it gets the best price. We already have a net negative trade balance of $60 billion with the Big Five alone. It is difficult to imagine "retaliation" could make things much worse.

And, we'll also hear from the retail community that restricting imports will raise consumer prices. The reality is that there is considerable evidence that any "savings" on imported goods merely result in higher markups for retailers, not reduced prices for consumers. The best evidence of this is that retail prices are continuing at a high level, despite the strong dollar, which should have resulted in lower prices for consumers.

And, opponents of this legislation, notably the retailers, the bankers and the U.S. State Department, will suggest that the textile industry already enjoys excessive protectionism. That argument also does not stand up under the facts -- imports have doubled since 1980. If this is protectionism, we can only wonder what a liberal trade policy is.

So, again, our first priority will be passage of "The Textile and Apparel Trade Enforcement Act of 1985".

Curbing the Trade Deficit is Important

Secondly, we must stimulate more public debate on our trade deficit and its impact on manufacturing.

We must seek public forums to remind the people and our public officials that our world competitiveness problems are not confined to textiles, apparel, steel, autos, machine tools, and consumer electronics. Every sector of manufacturing is susceptible to its own version of the textile industry's dismal past few years.

In just one year, the United States' trade deficit jumped 80% from a previous record $70 billion dollar deficit in 1983 to $123 billion in 1984. That deficit is expected to grow to $150 billion this year. Those figures not only indicate a lot of lost business, they also represent a substantial drain on our capital.

In some cases, the lost capital will never return. Yes, some will come back in the form of "investments" in our properties or resources -- but remember, it's the foreign investors' choice where they spend the future cash flow from these investments.

This all could lead to a significant change in our whole economic system as basic manufacturing industries shrink or fade away and are replaced by fast food and trading companies.

Consider this fact: Today, Japan's five leading exports to the United States are cars, trucks, video recorders, motorcycles, and oil country tubular goods -- the classic definition of a developed nation.

Our top five exports to Japan are corn, soy beans, wheat, cotton and coal, all raw materials -- the classic definition of an underdeveloped country.

You'll be hearing a lot more in the weeks ahead from a broad cross section of the manufacturing sector of the U.S., and perhaps even from the agricultural sector, about ways to help reduce the trade deficit. One of the early recommendations to surface is an import surcharge of perhaps 20%. The appeal of the surcharge is that it helps reduce the trade deficit and generates revenue to reduce the budget deficit. A study by Data Resources Inc., the Cambridge, Mass. economics firm, predicts that the proposal would slash the trade deficit by a cumulative $161 billion and the budget deficit by $270 billion before the tax would be phased out at the end of three years -- while accelerating inflation only modestly.

Curbing the Budget Deficit is Critical

And, while on the subject of deficits, the third "must" to be accomplished in order to moderate the growth of textile and apparel imports is reducing the federal budget deficit and its companion, the strong dollar.

As you all know, the dollar has risen by more than 60 percent against an average of the other major currencies over the past four years. And this sharp appreciation of the dollar has cost 2 million American jobs - 1.5 in manufacturing alone - and cut national output by 4%.

Meaningful actions must be initiated to change the overvaluation of the dollar and its impact on all of us. Those pundits who advise, "nothing can be done about the strong dollar," were the same voices we heard in the 1970's advising, "nothing can be done about world oil costs -- we'll just have to learn to live with OPEC!"

Too often, we are told America is better off with a strong dollar and cheap imports, a formula which equates to reduced inflation.

In fact, what we're doing is putting a "heavy tax" on our exports and subsidizing imports. As a result, we're pricing ourselves out of world markets. And for those of you who didn't notice, recent articles are pointing out that this problem is now starting to impact on our agricultural exports.

From coast to coast, firms are being caught in the price/profit squeeze brought on by increased imports subsidized by our overvalued dollar.

American consumers may be pleased with these bargain prices, but that won't last very long if their jobs keep moving overseas.

Governmental actions -- prompted and supported by all of us -- must focus in on this dollar problem.

However, it is essential that the dollar correction occur as smoothly as possible. A precipitous fall of the dollar could push inflation back into double digits and interest rates to intolerable levels.

I'm not a financial expert, but I'm sure that cutting the budget deficit significantly, starting in 1985, will be a heck of a beginning.

The job won't be easy, and time is running out.

Crafted With Pride

"Crafted with Pride in U.S.A." is a relatively new program that has captured the spirit and has earned the support of the U.S. cotton growers, man-made fiber producers, the textile industry, apparel manufacturers and labor.

Basically, the goals of the program are two-fold: First, to make consumers more aware of where the textile and apparel products they buy are coming from. Second, to ask that retailers give consumers a choice by stocking American-made goods as well as imports. If consumers have a choice and they are conscious of labels, we're confident they will "Buy American".

Surveys have shown that consumers prefer American-made apparel, but they simply are not used to checking labels to see where a garment was made. Instead, they shop for color, for style, for quality, fit, fashion and price. In most cases, people are not really conscious of "Made in Hong Kong" or "Made in Korea" labels. And sometimes those labels, although they are required by law, are pretty hard to find.

American fashion and quality are the finest in the world, and Americans are surely the most label-conscious people in the world. Yet for years, there was no requirement to label American-made apparel.

Our Congress finally did pass a "Made in U.S.A." label law. It went into effect on December 24, 1984. Any product made on or after that date is required to be clearly labeled. But, since manufacturers produce apparel a season in advance, it will be some time before the label law makes its mark on the retail market.

The star symbol, with the words "Crafted with Pride in U.S.A.", has already begun to show up in stores. We think consumers will begin looking for that label, and it will become just as popular as a Calvin Klein or Pierre Cardin label. The "Crafted With Pride in U.S.A." label will appeal to people not only because it means quality, but because it means keeping a vital American industry strong.

It should be emphasized that our "Crafted with Pride in U.S.A." campaign is not an anti-imports campaign, or an anti-Japan or anti-China campaign. We believe trade with those countries is important and should be continued. But a little economic self-interest is important, too. If we continue to allow our basic manufacturing industries to be underminded by foreign imports, we will lose the industrial strength that has been the backbone of our economy.

ADDENDUM-7

NEEDS ASSESSMENT & LEGISLATIVE SUMMARY
SUPPLEMENTAL ANALYSIS
AND
REPORT

GUNTER AND COOKE, INC.

9/7/84

JJ# - 669

LEGISLATIVE SUMMARY

During the months of June and July, 1984, a multifaceted research project was completed for Gunter and Cooke, Inc. on the status, the needs and the opinions of U.S. textile manufacturers. The sampling represented 81.5% (30) of the 42 companies identified as industry giants, and 14% (29) of the 206 mills/plants classified as small to mid-size. Considered either by independent groupings or as a composite, the number of responses represented a greater than 99% validity factor.

Prior to conducting the telephone segment of the survey, Diener and Associates, Inc. consulted extensively with the client and completed numerous executive interviews with recognized industry and industry association experts. These sessions provided the necessary input for formulating one segment of the survey that addressed the needs and concerns of textile manufacturers:

1. those points which the industry itself has recognized and is attempting to resolve ...
2. those points which certain breakthroughs in state-of-the-art technology would allow them to resolve...and
3. the uncontrollables caused by external forces which have so adversely affected the industry.

Once the preparatory phase was completed, the survey instrument was constructed to include all mentions of problem areas that had surfaced. They were as follows:

1. Cost of raw materials
2. Foreign competition
3. Government regulations
4. Waste ratios

5. Machinery down time for settings
6. Machinery down time for repairs
7. Labor costs
8. Antiquated equipment
9. Lack of consistent quality
10. Lack of industry automation
11. Cost and availability of financing for capital expenditures
12. Personnel turnover and training
13. Domestic competition
14. Availability of technically competent labor
15. Value of the dollar

When all respondents comprising the universe were asked to rank these "burdens" according to importance, it is significant to note that small and large companies alike unanimously cited:

100% Foreign competition as the most serious problem...

100% Government requlations as the second most serious...and

100% The value of the dollar as the third most serious.

Ironically all of these rankings fell into the one category of "non-industry controllables," so the same respondents were then asked to take the exercise a step further in order to rank the major concerns exclusive of the three already categorized. Findings were as follows:

1.	Antiquated equipment	First	21.2%
2.	Lack of automation	Second	19.5%
3.	Labor costs	Third	13.5%
4.	Cost and availability of financing for capital expenditures	Fourth	11.0%
5.	Cost of raw materials		8.5%
6.	Personnel turnover		6.8%
7.	Consistent production quality		6.0%
8.	Waste ratios		6.0%
9.	Machinery down time		4.2%
10.	Technically competent labor		3.3%
			100%

Indicated in the survey design was a segment on possible legislative or executive branch action that could address the industry's most serious, even life threatening problems. However, it should be noted that the options offered in this segment were not "created" by the research team, but were the actual multiple mention recommendations made by those interviewed during the preparation phase of the project--direct response to perceived needs.

Question:

> "WHAT TYPE OF LEGISLATION, OR WHAT POLICY DECISIONS ON A NATIONAL LEVEL, COULD HELP TO ALLEVIATE THE "SQUEEZE PLAY" THAT THE INDUSTRY IS EXPERIENCING?"

Selection: (Industry generated)

7.1 Legislation to curtail imports as a percentage of the market

7.2 Legislation to tax imports so domestic and foreign prices could be equalized.

7.3 Less regulatory control over mill operations.

7.4 Additional tax credits for capital expenditures.

7.5 Elimination of the inventory tax if applicable in your State.

7.6 Curtail federal spending so interest rates will stabilize.

7.7 Government subsidy of this major U.S. industry.

7.8 Lower minimum wage for apprentices, that is unskilled labor, and for minors.

7.9 Better police the legislation that is already on the books regarding import quotas.

7.0 Other opinions/recommendations: ____________________

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STATISTICAL ANALYSIS

	Major Companies				
	# of Mentions	% in Favor	# of Mentions	% in Favor	Composites
7.1	17	17.4 (1st-tie)	19	15.7 (1st)	16.44% (1st)
7.2	11	11.2 (5th)	18	14.9 (2nd tie)	13.24 (4th-tie)
7.3	6	6.1 (6th)	14	11.6 (4th tie)	9.13 (6th)
7.4	17	17.4 (1st-tie)	18	14.9 (2nd-tie)	15.98 (2nd)
7.5	12	12.2 (4th)	15	12.4 (3rd)	12.33 (5th)
7.6	15	15.3 (2nd)	14	11.6 (4th-tie)	13.24 (4th-tie)
7.7	2	2.0 (8th)	2	1.6 (6th)	1.83 (8th)
7.8	4	4.1 (7th)	3	2.4 (5th)	3.20 (7th)
7.9	14	14.3 (3rd)	18	14.9 (2nd-tie)	14.61 (3rd)
Totl	98	100%	121	100%	100%

DETAIL OF RANKINGS

MAJOR COMPANIES:*

FIRST - Tie: Legislation to curtail imports as a % of the market
and
Additional tax credits for capital expenditures

SECOND: Curtail federal spending so interest rates will stabilize

THIRD: Better police legislation that already exists

FOURTH: Elimination of the inventory taxes

SMALLER COMPANIES:*

FIRST: Legislation to curtail imports as a % of the market

SECOND - 3-way Tie: Additional tax credits for capital expenditures
Better police legislation that already exists
and
Tax imports to equalize domestic and foreign prices

THIRD: Elimination of the inventory taxes

FOURTH - Tie: Curtail federal spending so interest rates will stabilize
and
Less regulatory control over mill operations

*As can be noted with these comparatives, some deviation occurs between major and minor companies relative to legislation and/or public policy change. This fact is of little importance, however, since all recommendations were pre-qualified as highly representative of the industry's "feelings." We would make an observation that the differences are minimal and an assumption that the variances reflect only the historical perspectives of small business opinions versus big business opinions.

COMBINED RANKINGS:
(Industry giants and small to mid-sized firms)

FIRST: Legislation to curtail imports as a % of the market

SECOND: Additional tax credits for capital expenditures

THIRD: Better police legislation that already exists

FOURTH -Tie : Curtail federal spending so interest rates will stabilize
and
Tax imports to equalize domestic and foreign prices

FIFTH: Elimination of inventory taxes

SIXTH: Less regulatory control over mill operations

SEVENTH: Lower minimum wage for minors/apprentices

EIGHTH: Government subsidy of the textile industry

THE "OTHER CATEGORY": Since it is virtually impossible to categorize the answers to open-ended questions in a statistically meaningful way, and the responses ranged from "pray" to profanity, we have elected to synthesize and express only those points which were cited consistently with relevance to legislation or public policy.

1. Curtail federal spending and balance the National Budget. "This is the key."
2. Too many loopholes in the import sector. (Numerous examples were cited relative to quota violations, i.e., when the foreign exporters reach the designated limit on shirts, they rename the same item a blouse and take advantage of another permissable category. Country of origin is also an area of significant abuse.

3. "Regulations are one sided--very unfavorable to the domestic manufacturers. Our government needs to face this problem, not ignore it."
4. Congress should be mindful of trends on the value of the dollar--as they affect imports and the competitive advantage.
5. The administration should somehow attempt to achieve a balance of trade.
6. Provisions should be made for more R & D so that this country can keep pace with the state-of-the-art.
7. Automation is essential if the U.S. textile industry is to stay in business.

CONCLUSION

Taken as a composite or viewed as individual classifications, it is clear that textile manufacturers are not seeking a slice of any governmental special interest pie, even though certain public policies and regulations have dealt staggering blows to their industry from which many can never recover.

It would almost be natural, therefore, to anticipate that the "wounded" would be looking to an identified cause of their problems for justifiable retribution, yet the data prove this not to be the case.

Point: With "government subsidy" being one of the legislative/policy options offered, there were only 4 positive mentions from a total of 219 responses. The same was true for "lower minimum wages for apprentices or minors"-a "perk" that would be significant to a labor intensive industry. This option yielded only 7 positive mentions out of the total 219, so putting these two possible relief measures together, they only captured 4.8% of all opinions recorded. This statistic shouts and is certainly indicative of the continued pride felt by the industry for the free enterprise system and their desire to find acceptable solutions to problems without turning to "big brother" for a handout. Such is especially commendable when it is given that the import situation has ravaged their marketplace and they are very realistically faced with a shrinking universe regardless of what they do from this stage forward.

Point: It would seem important to note that at NO time during the course of this entire survey effort did any respondent state or imply that imports should be prohibited. On the contrary--they seem to welcome legitimate competition, foreign or domestic, and even credit the overseas influx with being responsible for painfully documenting that the U.S. industry had not moved with the times.

Point: Other segments of the research effort reflect that textile manufacturers are now accutely aware of "in-house" inadequacies, those being: antiquated equipment and lack of automation, which in turn have contributed to inefficiencies and disproportionate labor costs. The findings do indicate, however, that substantial sums for capital expenditures have been, are being, and will be expended to address this situation. Innovative technology has been slow in coming to the textile industry and when it has appeared, the industry has been slow to accept it, but it appears that the Gunter & Cooke, Inc. breakthrough (although not yet generally known to exist) will constitute a milestone of progress in the march for modernization.

To address what the industry does want from legislation or public policy is merely to address logic, honesty, economic stability, and a recognition of the commitment that is being made by them for the textile job market to survive. Billions of dollars are being spent to retrofit, renovate and replace, but a technological revolution such as is required doesn't happen overnight, nor does it happen without sacrifice.

The industry asks tax credits in exchange for its willingness to invest in America again.

The industry asks that imports be curtailed as a percent of the total market until the U.S. can win the war against cheap labor and foreign government subsidy through application of advanced technology that is now available.

The industry asks that existing legislation and/or guidelines be rigorously enforced. Their feeling is that they can deal with reasonable quotas. What they cannot handle, and should not have to, are the flagrant abuses of those quotas which reduce meaningful regulations to a farce.. Roses by other names so the product on the bill of lading fits the letter of the law,,subterfuge on where a product was really made; smoke screens, currency manipulation and a dozen other transgressions that turn the lip service for balance of trade into a mockery.

The industry asks that the federal government curtail its spending so interest rates will stabilize and the value of the dollar will not continue to work against them no matter what they, as businesses, do.

They ask, in summation, for NO special favors or concessions. They ask from their government nothing more than accountability, an equitable control over the import/export market as already mandated by law, and an economic climate of fiscal responsibility.

STATEMENT OF RICHARD H. MONK, JR., PRESIDENT, INTERNATIONAL DIVISION, WEST POINT-PEPPERELL, INC.

Mr. MONK. Mr. Chairman, I am Richard Monk, and I am the president of the international division of West Point-Pepperell, and the current vice president of the Georgia Textile Manufacturers' Association. We appreciate the opportunity to speak on behalf of H.R. 1562, the Jenkins bill, and let there be no question in the committee's mind, we are here to support that legislation.

I have submitted a written statement for the record. I do not propose to go through that. I would like to touch on some highlights of that paper and make additional remarks, if I may.

Chairman GIBBONS. Certainly.

Mr. MONK. I would like to spend the first part of my time in describing West Point-Pepperell. Our corporate offices are located in West Point, GA. We are the third largest publicly traded textile company in the United States. We operate 40 manufacturing facilities in eight States and in one foreign country, Costa Rica.

We produce a wide range of textile products. We cut across almost the entire textile spectrum: Carpets, bed and bath products, woven apparel products, knitted apparel products, piece goods, and a wide range of industrial products or fabrics that are designed and sold to other industries basically for incorporation into their end products.

Our company is one of the 15 domestic companies in the country that has not missed a dividend in over 100 years. We started paying dividends in 1852 and have not missed a dividend since that time. We have been a strong company, and we feel that we are a strong company today but we would like for you to see the impact imports have had on a strong U.S. textile company.

Our diversified product lines are marketed nationally, principally through our own sales force. Sales and merchandising headquarters are located in New York for a part of our product line, in Dalton, GA, for our carpets and rugs, and in West Point, GA, for our industrial fabrics. I am responsible for the international sale of our products.

Our last several fiscal years have been particularly good years for us, years in which we have prospered; and this has been in spite of the import surges that we have had to contend with for a number of years. But the first half of our current fiscal year—which began at the end of August 1984—has been an entirely different story.

The massive surges of imported products into this country are fast catching up with us in spite of all that we have done to counter their effects.

In the first 6 months of this fiscal year, our sales declined 11.3 percent, and our net income after taxes declined 71 percent. The chairman of our board, at that time said that this dismal record, and we certainly think from our standpoint it is dismal, resulted by and large from the impact of imports on our product lines.

We, over the years, to combat the imports, have been willing and able to remain very flexible, to take risks, and to diversify our product lines. We have put a lot of time, effort and money into restructuring our product lines to move away from those areas impacted by imports and to move into products that carried specific styling, specific brand names, proprietary products, and other products which we considered to be more import proof.

Although, we have been successful up until around the first of this current fiscal year, this success has not been without cost. Since 1977 we have closed eight plants and have had a massive restructuring of eight additional plants. This resulted in a job loss of approximately 20 percent.

We have invested heavily in new equipment to increase productivity, to reduce the unit labor cost of our products and to make products of a better and higher quality. Over the past 10 years, we have invested over $471 million in capital expenditures of which $228 million was invested in just over the past 3 years.

We estimate that we will invest an additional $75 million during the current fiscal year. We have put a lot of money into the modernization and restructuring of our facilities.

In spite of this we have been severely impacted by imports flooding our markets, particularly by the surges in 1983 and 1984.

I would like to speak about what I consider the double-edge effect of the international trade and its impact on our company. You have the statistics to support the fact that we are being flooded by imports.

One of the most important aspects of my job as president of the international division is to try to sell American-made products in the world markets. We have high-quality products that should be in demand in the rest of the world. We are proud that they have been "Crafted With Pride in the USA," and we want to sell these products throughout the world.

However, we are virtually prohibited from doing this in most of the world. On the one hand, we are being inundated with the imports. On the other hand, we are unable to compete effectively in the world market. When it comes to protectionism, we are babies in the crib. We don't know what protectionism is until we get out into these world markets and try to compete.

You go into many of these countries that look to us as open markets, and we are banned, our products are actually banned from sale in these countries. If they are not banned; the tariff barriers, the nontariff barriers, the Government subsidies, and the other protectionist measures that are put into effect make our products noncompetitive in their local markets.

I looked, just as a matter of curiosity, at a couple of countries who are certainly big suppliers of textile products to the United States. One is South Korea. The other is Brazil. As I indicated, we manufacture towels. Brazil, as Mr. Walker indicated earlier, has increased their towel exports to this country by approximately 43 percent, I believe, over the last year. We cannot sell our towels to Brazil. We are on a banned or prohibited list under their licensing program.

If we could sell $10,000 worth of our towels to Brazil, under their tariff structure, those towels would land in Brazil at an approximate value $26,000. This is not exact because there are some calculations that have to be made and freight charges and this type thing could vary, but landed cost would more than double the value of the towels.

If $10,000 worth of towels were brought into the United States from Brazil, they would land here at an approximate cost of $12,000. This is an indication of the difference in the tariff barriers and reflects some of the problems that we face.

Taking the same towels to South Korea——

Chairman GIBBONS. That is something that we are going to look into further in these hearings.

Mr. MONK. You are speaking of coming into this country?

Chairman GIBBONS. Well, I realize we have some tariffs here.

Mr. MONK. Sure.

Chairman GIBBONS. You can probably add some tariffs to those towels.

Mr. MONK. That is right.

Chairman GIBBONS. But our towels going into their markets, could you explain that?

Mr. MONK. Well, basically, and I don't have the full calculations, but the figures that we were able to obtain on the Brazilian situation, and believe me these figures change quite rapidly, is that the duty was 105 percent. There are some foreign exchange taxes which I believe were about 15 percent of the value. Let me back up and say most of the countries that we have tried to export to calculate their duties on a CIF basis, in other words landed-cost basis, so we are paying duties on top of, or the importer is paying duties on top of, the freight, the insurance and other costs. Most of our duty structure is based on point of origin or point of shipping, FOB plant. It can be a minor difference, but it all adds up.

There is a port tax on imports in Brazil and a merchant marine renewal tax—I am not quite sure what that is—but we were assured that all of these taxes mean, "We don't want those U.S. towels," and that is what I think they mean also.

In Korea, just as a matter of interest, their duty structure is much lower, 35 percent, but compare that to 11.7 in the United States. You have freight and, of course, it is calculated there. There is an additional VAT tax on imports. There is a defense tax.

Chairman GIBBONS. VAT tax?

Mr. MONK. On imports, yes, sir. A defense tax and then there is a tax on imports that is called something like an export promotion tax which, I assume, but I don't know this, is used to promote exports of the South Korean products.

There is a very good booklet published by the Department of Commerce, that lists restrictions by other countries on U.S. products. It is an informative booklet, and I can get the name of it and pass it on to your committee or your staff. Much of the tariff and nontariff barriers are listed in it.

In the carpet business, South Korea, up until just recently actually banned American-made carpet from their country. We have tried unsuccessfully for 2 years to take our carpet products into South Korea. They have removed the ban, I believe, on polyester fiber carpets and now are in the process of lifting the ban on nylon carpets, but the tariffs on those products effectively ban them from that country anyway.

So all I am saying is I think it is important for us to realize——

Mr. JENKINS. Do you know what the tariffs are in South Korea on carpet now?

Mr. MONK. I do not, Congressman. It is in that booklet I referred to, and I don't have it with me. My recollection, though, is that it is in the range of 70 to 80 percent, but I may stand corrected by the Department of Commerce on that.

My point though basically is this: we have the double-edged effect in this industry of being flooded by imports on the one hand, and of being effectively prevented from trading in the world markets on the other hand.

Many of the markets are certainly not as bad as these that I mentioned, but I would say that most markets that we try to sell into have a very wide range of barriers of one type or another to our products. Even in many of those that allow us to land products, the tariffs, are set at such a rate that you can be guaranteed that our products will be so expensive that there is no way we can compete once we get to the store shelves.

In the multifiber arrangement, and I know you have heard quite a bit about this, one of the purposes, which was very well stated, was to liberalize textile trade, and at the same time insure the orderly and equitable development of markets and the avoidance of disruptive effects in individual markets.

It is my opinion that this is not being carried out and this intent is not being supported in this country. The executive branch, I feel, has not taken the steps that are necessary to live up to that stated purpose of the MFA. I think all of the statistics and facts you have seen today, have seen in the past, and will see in the hearings in the future indicate that the imports into this country are disruptive, if nothing else.

In closing, Mr. Chairman, I would like to say that I am extremely proud to be an American, and I am extremely proud to be a part of the textile industry.

From my personal viewpoint, I think it is time that we stand up and do what is necessary to preserve the textile industry, to preserve an industry that led this country into the industrial revolution, and industry that supplies millions of jobs as you have heard, and untold economic benefits to the communities where plants are located. I think it is time for us to look at the question of equitable trade and begin to protect America's own self-interest in the textile and apparel trade question.

Thank you.

[The prepared statement follows:]

STATEMENT OF RICHARD H. MONK, JR., PRESIDENT, INTERNATIONAL DIVISION WEST POINT-PEPPERELL, INC.

Mr. Chairman, and members of the Committee, I appreciate the opportunity to present this paper to you about the necessity for Congressional action to prevent an economic disaster that is already affecting a substantial portion of our textile, fiber and apparel industry. The failure of the Executive Branch to obtain compliance with trade agreements from those nations with whom we have such agreements has resulted in a flood of imports that has disrupted our markets, caused the closing of over 250 plants over the past five years and the termination of thousands of jobs. Let there be no failure of Congressional judgment in this instance. If the Congress does not act, the consequences will be further market disruptions causing the loss of additional thousands of jobs . . .

Because the cotton farmers and man-made fiber producers will cease to produce; their markets with the domestic textile firms having disappeared; this

Because the textile firms can no longer sell their fabrics to the apparel industry; this

Because the apparel industry no longer has an adequate market for the garments it produces; and, all this

Because Congress failed to pass legislation to insure proper enforcement of the trade agreements and, apparel imports continued to grow at an average rate of 19 percent per year resulting in the penetration of imported products in these markets increasing from 50 percent in 1985 to 95 percent in 1990.

A statement almost as strong could be made about the loss of other textile markets.

I express to you sincere appreciation for this visit to Georgia by you and your Committee. It is meaningful to us that you would provide this occasion for people from the industry to present their views on these matters. I would be remiss if I failed to acknowledge appreciation of the entire industry to Congressman Ed Jenkins, in whose District we are meeting, for the very important role he has filled as Chairman of the Congressional Textile Caucus and for his authorship of HR 1562. The judgment of this Committee is vital to passage of this important legislation.

I know, Mr. Chairman, the retail leaders will say, "Enforce the Multi-Fiber Arrangement and the American consumers will pay more for their textile products." I believe the facts are that many retailers buy low-priced garments from foreign manufacturers whose employees work for what Americans would consider to be "sweat shop wages" and who are also subsidized by their governments. Generally speaking, the retailers do not pass on to the consumer the cheaper prices but sell these garments at prices similar to American-made garments. In addition, if foreign producers succeed in destroying the U.S. textile and apparel industry won't the American consumer ultimately pay higher prices for textile products? There may well be a lesson to be learned from the production of velveteen fabrics. The principal American producer of this fabric went bankrupt in October of 1984 and at that time the Japanese raised their price on this product by $1 per yard.

Mr. Chairman, I would like to tell the Committee something about the Company that I represent.

West Point Pepperell, Inc., whose corporate headquarters are located in West Point, Georgia, is a textile firm that has had successful operations for over a century. It is one of a few domestic companies that has not missed the payment of a dividend to its shareholders in over 100 years. The Company has 40 manufacturing facilities in the United States. These plants are in Alabama, Georgia, Florida, Maine, North Carolina, South Carolina, Texas, and Virginia. We also have a plant in Costa Rica.

We manufacture and sell a wide variety of textiles for the apparel, household and industrial markets. The Company's plants are generally operated three shifts per day, five, six and in some instances seven days per week for 50 weeks per year. The principal raw materials used are cotton and man-made fibers.

Our diversified product lines are marketed nationally, primarily by our own sales force; international marketing is handled by the Company's International Division. Sales and merchandising headquarters for apparel fabrics, bed and bath products, and international sales are in New York City; headquarters for carpets are in Dalton, Georgia; and headquarters for industrial fabrics sales are in West Point. We have 20 regional sales offices located throughout the United States.

Our fiscal years 1982, 1983 and 1984 were outstanding. Net sales were $1.1 billion, $1.2 billion and $1.3 billion, respectively. Profits were up. New earning records were established. But the first half of our current fiscal year (ended in February) was a different story. We have contended with the effects of imports since the 70's, but it has just been during this first half of our current year that imports have had such a severe and obvious impact on our profit margins. Net sales for this period declined 11.3 percent and net income after taxes declined 71 percent. Chairman of the Board, J.L. Lanier, Jr., reported that this dismal record resulted from the continuous surge of imports, excessive store inventories and a pre-tax charge of $8.2 million taken to consolidate and streamline certain operations (made necessary by and large because of import competition).

If imports can affect a strong diversified company such as West Point Pepperell in this manner, smaller firms with less diversification can and will be more drastically affected. Unless Congress acts, the survival of the textile and apparel industry is in question. Surely the Committee is aware that the jobs of not only textile and apparel workers are at stake but also the jobs of store clerks, service station attendants, small retailers and the many inhabitants of hundreds of small communities in which the sole or dominant economic base is the local textile or apparel plant.

I know the Committee is knowledgeable as to the size of the industry, but permit me to cite several 1984 figures. The textile and apparel industry is the single largest sector of manufacturing in our economy. Almost 2 million people are at work in 28,000 plants. The industry accounted for more than $56 billion of our gross national product; more than either the automobile or steel industries. The textile industry is a principal market for cotton and wool produced in the United States. A total of 355,000 people were involved in producing these fibers and sales of these fibers to the domestic textile industry totaled $2.8 billion. We are also a principal market for the petro-chemical industry that produced 8.2 billion pounds of man-made fiber in 78 plants employing 71,000 people.

An additional two million people are employed in jobs that relate to the textile and apparel industry. They are involved in the growing or manufacturing of fiber as indicated; in the providing of supplies, services and machinery to the industry; in the sale of equipment and the construction of facilities; and in the providing of health care and other services important to the employees. Forty percent of the employees in the textile and apparel industry are minorities and 47 percent are women. For those employees who lose their jobs because of the impact of imports the probability is that a great number will be unable to find new employment because of limited employment opportunities in the small rural communities in America in which many of these plants are located.

It seems to me, Mr. Chairman and members of the Committee, that one of the primary issues before us today is the validity of the Multi-Fiber Arrangements and bilateral trade agreements the United States has with many of its trading partners; mechanisms that have been with us since 1974. The objectives of these agreements are: "To achieve the expansion of trade, the reduction of barriers to such trade . . . the progressive liberalization of world trade in textiles products, while at the same time insuring the orderly and equitable development of this trade and avoidance of disruptive effects in individual markets . . . in both importing or exporting countries." (See MFA article 1(2)) From the severe disruptions our industry has experienced since 1982 it is evident that the Executive Branch has not obtained compliance with these objectives by our trading partners. Without these trade arrangements our textile and apparel industry, as we know it, would not exist. Do they serve a worthy purpose? Yes. Should they be enforced according to their terms? Yes. Because the Executive Branch has been indifferent to the need to enforce these agreements should not the Congress pass legislation requiring the enforcement of these arrangements and thereby save hundreds of thousands of jobs that are to be lost if nothing is done? Yes.

A foreign country with a well-trained, low-paid labor force and with appropriate capital equipment can produce great volumes of textile and apparel products and thus gain the ability to cause instability and serious disruptions in the domestic markets of other countries whose markets are open and without regulation. If this is true, and I believe it is, can there be any question about the necessity of enforcing trade agreements with our major trading partners? This is particularly true with reference to the Big Five (Japan, Taiwan, South Korea, The Peoples Republic of China, and Hong Kong) who in 1984 captured over 50 percent of the total U.S. import market. The ability of the Big Five to expand their productive capacity seems to be unlimited.

Passage of HR 1562, the Textile and Apparel Trade Enforcement Act of 1985, would provide a mandate to the Executive Branch to enforce the trade agreements under the MFA.

I would like now to point out how the surge of imported fabrics and garments has affected West Point Pepperell and what our Company has done to try to cope with this problem.

Our ability and willingness to remain flexible, take risks and diversify our product lines in order to cope with market disruptions resulting from imports is well recorded. J. L. Lanier, Jr., in 1977, stated in the Company's Annual Report to Shareholders, "The woven apparel markets were rather weak all year. There is no question that imported fabrics and garments, especially from Korea, Taiwan, and Hong Kong, have seriously affected this business. Our policy in relation to the import situation is unchanged: to move the Company's business more and more into products in which we have a competitive advantage whether in the product itself, in marketing ability, or in manufacturing cost."

In the 1983 Annual Report to Shareholders Mr. Lanier stated, "Imported products from the Far East and a general excess of domestic weaving capacity has put severe pressure on United States manufacturers . . . We firmly believe it is foolhardy, as proven by current trade figures, to rely altogether on the actions of the Federal Government to stem the rising tide of imports and thereby assure the prosperity of domestic manufacturing. While welcoming any help from this quarter, we instead look to our own resources and initiatives in order to compete sucessfully in world textile markets. To this end we are consolidating domestic operations to reduce our exposure in markets heavily impacted by imports . . . recognizing the growing need to expand our participation in world markets, we established an International Division in 1983. This group will be concentrating on programs to market our goods abroad and also to source foreign goods to round out our domestic product lines."

As can be seen from these statements, we have contended with and reacted to imports for a number of years and with some success. However, this success has not been without hardship as indicated by the fact that we have closed eight plants and converted eight additional plants to other product lines since 1977. In addition we have experienced a 20% job loss during this period.

Perhaps there would be interest in what our company has done during this period to counteract the effects of this high level of imports.

We have invested heavily in new equipment to increase productivity, reduce the cost per unit of manufactured products and generally to modernize our facilities. Over the past ten years we have invested $471,601,000 in capital expenditures of which $228,000,000 was invested in just over the past three years. We estimate that for 1985 we will have further investments of this nature of about $75,000,000. A portion of this investment included new computer systems and programs, warehouse expansions and other such investments designed to improve services to our customers to help insure that we remain as competitive as possible.

We have also diversified product lines away from those product areas that have been most heavily impacted by imports and have redirected our production facilities and marketing efforts to products which have traditionally been more immune to import competition. The strength of our brand names, our styling capabilities and the production of proprietary products have all been of great assistance in helping maintain a competitive edge against imported products. During this time it has been necessary that we react quickly to market trends and be willing to consolidate and even close manufacturing operations wherever possible to improve efficiency and reduce costs.

In 1983 we established an International Division within the Company which is charged with the responsibility of increasing the Company's presense in international markets by concentrating efforts on exporting U.S. made products into world markets, sourcing products wherever necessary to be used in product lines sold in this country and seeking other opportunities for investing in world textile markets. Since that time a substantial amount of time and effort has been expended in positioning the Company in the international textile markets. During this time we also established our first wholly-owned manufacturing plant outside the United States to produce shirts from fabric woven and cut in one of our Texas mills. Hopefully this undertaking will provide ample market for the fabrics from our Texas mill so that this facility will not become another victim of imports.

In spite of the $471,601,000 invested in capital expenditures over the past ten years, in spite of the adjustments involved in the closing of eight plants and the converting of eight additional plants in the past several years, and in spite of all other actions taken by management that steered the Company through periods of high level profitability between 1975 and August 1984 (the end of a fiscal year), West Point Pepperell fell victim to the tremendous surge of imports that began in 1983. As previously mentioned, net income after taxes declined 71 percent from August '84 to February '85. Two plants were closed and two others were converted during this six month period alone at a pre-tax cost to the company of $8.2 million. Our hundreds of employees who have lost their jobs or have had to take transfers to other posts and take a cut in pay as a result of the changes precipitated by the import surge certainly must feel that they have been more than disrupted.

Much has been said about the inadequate performance of government employees who are responsible for the making and enforcing of our trade agreements affecting imports. Proof of such inadequacies exists in the record level of imports that have flooded our markets over the past three years. As the textile/apparel industry has undertaken to market our products throughout the world we have come upon a second serious deficiency that we must lay at the door of those responsible for our trade relations. We are handicapped in building a thriving export business for the reason that most of the countries to which we might export have tariffs, non-tariff trade barriers and other mechansims that make access to their markets difficult or impossible. We believe our government has been deficient in undertaking to reduce these obstacles. There are few trading partners in the world who echo our slavish devotion to "free trade." Free trade, as originally conceived, related to competition between private businesses. During the last half of this century as more and more countries have chosen a form of government in which the tools for the production of goods are owned by the government, many of our trading partners have become governmental entities. We have yet to hear a satisfactory explanation as to how free trade can flow where one of the parties is a governmental agency bound by no domestic market, by no need to make sufficient profit to be able to pay for labor and supplies, and with freedom to subsidize production.

One unfortunate consequence of the flood of imports and our inability to enter foreign markets is the growing necessity for American industry to relocate manufacturing facilities offshore. History has shown that this is a long term, probably permanent loss of jobs to the citizens of the United States. Put another way, we are simply exporting jobs to foreign countries.

The high, high value of the U.S. dollar is another impediment to our efforts to export and at the same time it provides substantial advantages to those from whom we import. It is a substantial contributor to our trade imbalance; $123 billion for 1984 and projected to reach $150 billion in 1985. It is essential that the Congress adopt a budget that reduces the deficit substantially so that a gradual decline in the value of the U.S. dollar can be achieved.

Mr. Chairman, Section 6 of HR 1562 provides for the licensing of imports. By its terms those who export to our country first obtain a license from the Secretary of Commerce. Presently those who export to us are charged with the responsibility of monitoring their compliance with trade agreements, all records and initiatives on incoming shipments are maintained in the country of the exporter. Our Department of Commerce does not know what goods and shipments are in route to our markets until they land on our shores. We understand that the U.S. Customs Service is extremely short of personnel to perform the essential services necessary to monitor the trade agreements. This licensing provision of HR 1562 would be of substantial assistance to the Customs Service.

In closing, Mr. Chairman, may I express the judgment that our country suffers from lack of a consistent policy on foreign trade that gives adequate consideration to the economic interests of domestic manufacturers and the millions of employees who work for them. Is there no end to the willingness of our government to conform to free trade practices, and at the same time accept without visible response the closed or restricted markets of our trading partners? How many plant closings and consolidations, how many thousands of jobs must be lost and moved overseas before action is taken to insure that we do indeed have free trade? Our supply of many lines of merchandise, such as shoes and consumer electronics are now almost completely manufactured overseas. We in essence have provided the products, the markets and the purchasers to the overseas competitors who now have the jobs and the profits. It does seem that the State Department, still without a desk that is charged with the responsibility of looking after American interests, has a greater voice in the matter of our trade relations than does the Department of Commerce whose responsibility is more related to the well-being of our economic community. If present trends continue events will continue to reinforce our arguments and the voices that raise these arguments will be both stronger and more numerous.

STATEMENT OF JOHN A. BOLAND, JR., CHAIRMAN AND CHIEF EXECUTIVE OFFICER, SWIFT TEXTILES, INC.

Mr. **Boland**. Chairman Gibbons, Congressman Jenkins in whose district we are meeting, and other members of the committee, I am John Boland, Jr., and I am chairman and chief executive officer of Swift Textiles, located in Columbus, GA. I come to express to you my great concern for the future of textile manufacturing in this country.

Chairman **Gibbons**. I wonder if you could get a little closer to that microphone?

Mr. **Boland**. Is that better?

Chairman **Gibbons**. Yes, sir.

Mr. **Boland**. In the textile manufacturing industry in this country, and especially for that portion of it closely allied with apparel which traditionally has been the market for 40 to 50 percent of the industry's output.

My company's product, its only product is indigo-dyed denim which subsequently becomes blue jeans in garment form and, therefore, is 100-percent apparel oriented. It is the apparel oriented textile companies that are most adversely affected by foreign imports. Highly labor intensive garmets are the greater part of the import problem devastating the domestic textile and apparel industries.

Swift Textiles is the third largest producer of denim. The company originated over 100 years ago and has been a leading producer of denim for the last 20 years. It is completely modern, highly efficient, being equipped with state of the art spinning and shuttleless weaving systems.

Over the past 5 years, Swift Textiles has invested over $60 million to become the most efficient producer of this commodity type product. On an equal basis, we can successfully compete with anyone, anywhere, any time.

Previously the American denim industry traditionally has been a completely American product. It originated in the country and until fairly recently was concentrated here because the unique process of continuously dyeing indigo was not widely known. During the denim jeans high growth era of the 1970's, other countries acquired this technical know-how and established a denim producing capability.

With such a capability, very favorable currency exchange rates, and outright prohibition against American denim over the various restraints designed to protect their market, these countries have virtually shut down the denim industry export market which, at its peak, was about 125 million square yards annually and about 25 percent of the denim industry then existing capacity.

Without export, the U.S. denim products are now confiend to the domestic market. Over the past 5 years, the sale of denim jeans at retail has been flat, averaging about 369 million pairs annually. The overall apparent domestic consumption of denim is on the order of 800 million square yards annually. Imports of foreign fabric, primarily from the East, cover about 175 million square yards of this need, or 22 percent of the domestic market.

Export loss, combined with the import growth, means that the denim segment of the textile industry has lost 45 percent of its former market and has been impacted by an oversupply, depressed prices, severe curtailment and high unemployment.

Swift Textiles has not escaped this trauma. This past year, we have utilized only 60 percent of our capacity, and in recent months, we have permanently reduced capacity by 15 percent and have terminated 150 hard working people hoping that the remaining people will be kept working on some reasonable basis, but that is an uncertain hope. We have been forced to take this position not because we are inefficient or nonproductive, we are the best there is. It is because we are not permitted to compete on a fair and equal basis, but the foreign producers' free access to our market with unfair competitive advantages granted by their governments, while we are denied access to markets of other countries and saddled with competitive disadvantages by our Government.

This problem reaches far beyond the textile industry alone but affects all manufacturing industry in this country and even reaches into agriculture. For example, denim is cotton's largest single customer consuming roughly 1 million bales of cotton a year. The cotton farmer's market is significantly eroded by uncontrolled textile and apparel imports. Only one in five bales of cotton being imported in the form of textile and apparel products is an American-grown bale.

On the one hand, we have prohibited the import of raw cotton fiber into this country, but freely allow foreign-grown cotton to come in as cotton textiles and apparel.

Existing trade agreements have totally failed. This administration has totally failed to live up to its commitment to effectively manage trade. The acceleration and growth in the last 2 years, 25 percent in 1983, followed by 32 percent in 1984, brings us to the crisis point in the textile industry. It is time to enact legislation which will preserve the needed basic industries vital to our national well-being and to our national defense.

The U.S. fiber, textile and apparel industry is the best there is, it can compete throughout the world. We only ask that it be given a fair and unencumbered opportunity to do so.

I thank you very much.

Chairman GIBBONS. Thank you.

[The prepared statement follows:]

STATEMENT OF JOHN A. BOLAND, JR., CHAIRMAN AND CHIEF EXECUTIVE OFFICER, SWIFT TEXTILES, INC.

Mr. Chairman: I am John A. Boland, Jr., chairman and chief executive officer of Swift Textiles, Inc. located in Columbus, Georgia. I much appreciate the opportunity this forum provides me to express the very considerable concern that I have for the future of a needed basic industry—the textile manufacturing industry—and especially for that portion of it closely allied with apparel which traditionally has been the market for 40–50 percent of the domestic industry's output. It comes from one with over 40 years in the textile industry which has long and painfully suffered from the failure of our Nation's trade policies and the deterioration of this basic industry's strength as a result of widespread market disruption. I am amazed that our Government allows this to occur in the name of foreign policy.

My company's only product is indigo-dyed denim which ultimately becomes blue denim jeans in garment form and is therefore 100 percent apparel oriented. It is generally recognized that it is the apparel oriented textile companies that are most adversely affected by imports inasmuch as labor-intensive garments are the greater portion of the problem imperiling the domestic textile and apparel industries.

Swift Textiles is the third largest producer in this specialized segment of the textile industry. The company originated over 100 years ago and has been a leading producer of denim for jeans for the last 20 years. It is modern and highly efficient being completely equipped, for example, with the most modern yarn making and shuttleless weaving systems. Over the past five years we have invested in excess of $60 million to make swift the undisputed lowest-cost producer in the industry. On an equal basis, we can successfully compete with anyone, anywhere, anytime.

Traditionally denim has been a completely American product. It originated in this country and, until fairly recently, was concentrated here because the unique process of continuously dyeing indigo was not widely known. During the denim jeans high growth era of the 70's, other countries acquired this technical know-how and established a denim producing capability. With such a capability, very favorable currency exchange rates, and aided by numerous restraints against American denim imports, these countries took from the U.S. producers most of their export market which, at its peak, was 125 million square yards annually and 25 percent of its then-existing capacity.

Denied its former healthy export market, the U.S. producer is today confined to the domestic demand for denim. The sale of jeans at retail in the U.S. has been flat over the past five years, averaging 439 million pairs. Denim jeans sales are 80 percent of the total and have averaged 369 million pairs annually. This plus other minor non-jeans uses makes the apparent domestic consumption of denim on the order of 800 million square yards. Of this, imports, primarily from the east, are today 175 million square yards or almost 22 percent of the domestic market.

In terms of export loss and import growth, the denim segment of the textile industry has given up 45 percent of its potential market in recent years and obviously has been severely impacted by oversupply, depressed prices, extreme curtailment and high unemployment.

Swift Textiles has not escaped the trauma. This past year we have operated only 60 percent of the time and in recent months have permanently reduced capacity by 15 percent, discharging 150 employees and adding to the already abnormally high unemployment rate in the area. With this capacity adjustment we hope to provide steady employment for those remaining, but that hope is uncertain.

Like all others in this segment of the industry, we have suffered greatly as a result of the prevailing disruption—not because we are outdated or inefficient, but because of the foreign producers' free access to our market with unfair competitive advantages granted by their governments, while we are denied access to markets of other countries and saddled with competitive disadvantages by our government.

The problem confronting us is not confined to the textile industry, but rather affects all manufacturing industry in this country. It even reaches beyond manufacturing into agriculture and the extractive industries. For example, the textile industry is the cotton farmer's customer and the denim segment uses more cotton than any other. Denim is thus cotton's largest single customer. It consumes about 1 million bales of domestically grown cotton annually. The farmer's market for cotton is significantly eroded by textile and apparel imports. Only one in five bales of cotton being imported in the form of textile and apparel products is an American grown bale. Four of the five are foreign grown. It is highly inconsistent on one hand to prohibit the import of raw cotton fiber into this country, but to freely allow cotton garments and textiles to come in which are made from foreign grown cotton fiber, thus greatly eroding the domestic cotton farmer's market for his product.

On an industry-wide basis apparel imports captured about one half of the U.S. market in 1984 and in some categories as high as 80 percent of a particular market segment. If the 1984 trend continues, a certainty if current trade policies are not changed, the American fiber, textile and apparel industry will cease to exist by 1990. It is a basic industry vital to our national well being and to our national defense. While cognizant of the economic plight of undeveloped nations of the world, we must not allow our basic industries to expire and, above all, we must not permit the already developed nations to undermine the strengths that we have labored so diligently to attain.

Today our government maintains a worthy, but outdated commitment to free trade in a world where free and fair trade is a myth. Reality is a world of managed trade and combinations of subsiders, high tariff barriers, customs and licensing barriers, by import quotas and by out-right prohibitions. In the world of reality this Government must learn to play the realistic game lest America lose its position of leadership in today's global economy and our basic industries expire in the process.

Existing trade agreements have failed to produce envisioned results. This administration has failed to keep its promise to match import growth to market growth. On the contrary, it has allowed textile and apparel imports to rapidly accelerate—25 percent in 1983 followed by 32 percent in 1984. It is time to enact legislation requiring specific action which will preserve America's commitment to a healthy world economy, but not at the expense of its vital domestic industry.

The U.S. fiber, textile and apparel industry is the best there is. On an equal basis, it can compete throughout the world. It only asks for a fair and unencumbered opportunity to do so.

STATEMENT OF WALLACE J. BRUCE, VICE PRESIDENT OF MANUFACTURING, COATS & CLARK, INC.

Mr. **Bruce**. Mr. Chairman and members of the committee, I am Wallace Bruce. I am vice president of manufacturing for Coats & Clark, and you have already heard two of our employees testify earlier: Ms. York and Ms. Payne.

Coats & Clark has 11 manufacturing facilities in the United States, 9 in the State of Georgia. The employees of Coats & Clark, hourly employees, supervision and management, are committed to the goal of being a worldwide competitor, not only in the domestic market but also in the export market.

Since 1980, we have invested more than $50 million in capital expenditures to modernize our mills. We made this investment so we could produce the highest possible quality at the least cost. We are totally committed to the program of "Crafted With Pride in the USA." Today, without any doubt, our finished goods are equal to or better than those produced anywhere in the world. In fact, had someone told me 5 years ago that we would be producing goods of today's quality, I would have taken all bets that our mills would be running at full capacity.

Just the opposite has happened. In 1984, we had to shut down our largest spinning mill that was located in Clarkdale, GA. We told employees who had 35 and 45 years' service with the company that they no longer had a job. Coats & Clark was their life, they told us. Needless to say, it was a tearful day with 431 employees out of a job. It was a day I will never forget because I was there.

Then came the task of selling the new machines that were purchased to modernize the Clarkdale mill at sale prices of 50 to 75 cents on the dollar. Today, our Clarkdale mill stands empty. Without any hesitation, I can truly say the reason for closing Clarkdale is the uncontrolled increase of imports.

If Clarkdale was the end, one could take a deep swallow. But in the last 30 days we again had to take some drastic employment cuts in our textile operations. Between 175 and 200 employees were laid off, with little hope of being recalled. Employees with up to 31 years' service were out of their jobs.

What really hurts is that there are employees whom I worked with out on the floor. I know their families, their children. The fact that they have lost their job is truly no fault of their own.

Today, without sounding too commercial, I would gladly compare the quality of U.S. textiles with products produced anywhere else in the world.

We certainly have not priced ourselves out of the market with wages, as some U.S. industries have. In fact, if it was not for government policies and regulations, I truly believe we could be world competitors. Coats & Clark's productivity is at the highest level ever, and our labor cost reflects this productivity. Why are we having problems being competitive? Or perhaps a better question is: What would imports cost if the foreign manufacturer's cost of doing business was equal to ours, additional cost due to Government laws, policies, regulations?

For example, at Coats & Clark the cost of unemployment with the reduction in the work force—cost of employment doesn't stop when there are layoffs and cutbacks. Our unemployment insurance expenses continue to increase. In 1982, our unemployment insurance was $180,000; in 1983, $302,000; in 1984, $621,000. We estimate our cost this year at $776,000—close to a half-million dollars' increase in cost from 1982 to 1984 due to layoff.

The cost of air pollution control—I don't know of any American who won't vote for clean air and the importance of clear air. Coats & Clark has always been 100 percent supportive of a clean environment; however, the cost of clean air is expensive. I am listing below some of the costs involved.

Capital expenditure, $1 million in our Toccoa and Albany filter systems. Annual operating expenses are $125,000.

The cost of water treatment—once again, no question but Coats & Clark supports EPA 100 percent, especially with regard to our dyehouses in Toccoa and Albany. However, we must bear costs that our overseas competitors do not have. The capital investment here was $900,000 with an operating expense each year of $250,000.

As to OSHA, Coats & Clark has had a long history of outstanding safety records. In fact, we have one plant that has not had a lost time accident for 3 years. And this year, we had three mills without lost time accidents. We had this type records without OSHA; however, with the latest OSHA regulations the cost of doing business increases again—capital expenditures, a half a million dollars; annual expenses, $190,000.

As you can see, in total we are talking some big figures—capital investments of $2,400,000 and operating cost of $565,000 a year. And we have not even mentioned the personnel and staff it takes to keep all the required records, for Government regulations, which we estimate to be $425,000 to $450,000 per year.

And perhaps most damaging is the value of the dollar. We at Coats & Clark used to enjoy an excellent export business. In 1985, we will export 55 percent less goods than in 1983. Why? The value of the dollar. Export customers agree we have a superior product; they just cannot afford it. The same problem holds true for our customers in the U.S. apparel market.

Recently, I received a copy of a telex from one of our export customers stating that due to the dollar value against the British pound, we would have to reduce our prices 30 percent or lose the business. We have reduced our variable cost, primarily labor, to a minimum. All that is left is fixed cost and Government cost. It is just not there to cut.

One last figure. Since May 1983, 35 months, our employment has been reduced by 1,500 employees, approximately 35 percent. Most of this employment was in small communities such as Toccoa, Clarkdale, Thomasville, and Phelham.

Then you ask what will it take to get you out? Let's take Toccoa; we had a new industry announced in Toccoa just recently. An electric company is coming in with approximately 150 jobs. There were 1,700 applications for those 150 jobs.

Our employees are good, hard-working American people. We deserve a better fate. We appreciate what you are doing.

Thank you.

[The prepared statement follows:]

STATEMENT OF WALLACE BRUCE, VICE PRESIDENT OF MANUFACTURING, COATS & CLARK, INC.

The employees of Coats & Clark (hourly employees, supervision, and management) are committed to the goal of being world wide competitors, not only in the domestic market, but also in the export market.

Since 1980 we have invested more than 50 million dollars in capital expenditures to modernize our mills. We made this investment so we could produce the highest quality possible at the least cost. We are totally committed to the program of "Crafted With Pride in the U.S.A." Today, without any doubt, our finished goods are equal to or better than those produced anywhere in the world. In fact, had someone told me five years ago that we would be producing goods of today's quality, I would have taken all bets that our mills would be running at full capacity.

Just the opposite has happened. In 1984, we had to shut down our largest Spinning Mill that was located in Clarkdale, GA. We told employees who had 35-45 years service with the company they no longer had a job. "Coats & Clark was their life," they told us. Needless to say, it was a tearful day with 431 employees out of a job. It was a day I'll never forget because I was there.

Then came the task of selling the new machines that were purchased to modernize the Clarkdale Mill at sale prices of 50 to 75 cents on a dollar. Today, our Clarkdale Mill stands empty. Without any hesitation, I can truly say the reason for closing Clarkdale is "The Uncontrolled Increase of Imports."

If Clarkdale was the end, one could take a deep swallow, but in the last 30 days we again had to take some drastic employment cuts in our textile operations. between 175-200 employees were laid off, with little hope of being recalled. Employees with up to 31 years service were out of their jobs.

What really hurts is that these are employees whom I worked with out on the floor. I know their families, their children. The fact they have lost their job is truly no fault of their own.

Today, without sounding too commercial, I would gladly compare the quality of U.S. textiles with products produced anywhere else in the world.

We certainly have not priced ourselves out of the market with wages as some U.S. industries have. In fact, if it wasn't for government policies and regulations, I truly believe we could be world competitive. Coats & Clark's productivity is at the highest level ever and our labor cost reflects this productivity. Why are we having problems being competitive? Or perhaps a better question is what would imports cost if the foreign manufacturers' cost of doing business was equal to ours (additional cost due to government laws, policies, regulations)?

For example at Coats & Clark:

COST OF UNEMPLOYMENT

With the reduction in work force, cost of employment doesn't stop when there are lay offs and cut backs. Our unemployment insurance expenses continue to increase: 1982—$180,112; 1983—$302,606; 1984—$621,056; 1985—$776,826 (Estimated).

Close to a half million dollars increase in cost from 1982 to 1984.

COST OF AIR POLLUTION CONTROL

I don't know of any American who won't vote for clean air and the importance of clean air. Coats & Clark has always been 100 percent supportive of a clean environment; however, the cost of clean is expensive. Listed below are some of the costs involved:

Capital investment—$1,000,000 (Toccoa & Albany Filter Systems); annual operating expense—$125,000.

COST OF WATER TREATMENT

Once again, no question Coats & Clark supports EPA 100 percent, especially with regard to our dyehouses in Toccoa & Albany; however, we must bear costs that our overseas competitors do not have: Capital investment—$900,000 (Toccoa only); operating expense—$250,000/year.

O.S.H.A.

Coats & Clark has had a long history of outstanding safety records. In fact, we have one plant that has not had a lost time accident for three years, and this year, we had three mills without lost time accidents. We had this type of record without O.S.H.A.; however, with the latest O.S.H.A. regulations, the cost of doing business increases again!

Capital expenditures—$500,000; annual expense—$190,000.

As you can see, in total we're talking some big figures:

Capital investment—$2,400,000; operating cost—$565,000 a year.

And we have not even mentioned the personnel and staff it takes to keep all the required records, which we estimate to be $425,000-$450,000/year.

And perhaps most damaging is the value of the dollar. We at Coats & Clark used to enjoy an excellent export business. In 1985, we will export 55 percent less goods than in 1983. Why? the value of the dollar. Export customers agree we have a superior product, they just cannot afford it. The same problem holds true for our customers in the U.S. apparel market.

Recently I received a copy of a telex from one of our export customers, stating that due to the dollar value against the British Pound, we would have to reduce our prices 30 percent or lose the business. We have reduced our variable cost (primarily labor) to a minimum. all that's left is fixed cost and government cost. It's just not there to cut.

One last figure, since May of 1982 (35 months) our employment has been reduced by 1500 employees (approximately 35 percent).

Our employees are good, hard working Americans who deserve a better fate.

Chairman GIBBONS. Thank you.

STATEMENT OF PROF. ALBIN F. TURBAK, DIRECTOR, SCHOOL OF TEXTILE ENGINEERING, GEORGIA INSTITUTE OF TECHNOLOGY

Mr. TURBAK. Mr. Chairman, I am Dr. Turbak, and I am director and professor at the——

Chairman GIBBONS. Dr. Turbak, please get a little closer to that microphone.

Mr. TURBAK. Mr. Chairman, I am Dr. Turbak, and I am director and professor at the School of Textile Engineering, Georgia Institute of Technology.

I have been asked—first of all, I have a disclaimer. Somehow on that listing I am listed as an economist. Nothing could be farther from the truth. I claim nothing in the economic area. I will try to cast a little bit of a different light on the technology and the productivity, if you will, through technology in the textile area.

I think it is important to realize—before I start, I would like to make a few comments about the textile industry as we see it, and why it is important to stay technologically competent in this industry.

The U.S. consumer spends yearly $90 billion for clothes, out of a $200 billion market in the United States. Certainly, the textile industry must have done something correctly over the years to generate this tremendous potential market.

The second thing I would like to comment on is the fact that the U.S. population is only 5½ percent of the world's population, but we purchase 21 percent of all of the textile goods that are sold in the world. By comparison, the People's Republic of China has 25 percent of all the world's population and they purchase less than 5 percent of all the goods in the world.

Well, this can be done only because the people there are either rationed or their textile goods are so atrociously priced relative to local economics that they can't afford it. And I don't think that this indicates what I would call free trade or fair trade in that particular sense.

I would like to first of all put out any doubt that the U.S. textile industry is highly efficient and out produces any other country in the world. I say that categorically. For example, in the United States we have a little over 2 million people working in 7,000 textile plants, and they produced 12 billion pounds of product.

In the People's Republic of China, you have almost double that amount—4.3 million people working in 12,000 plants, 50 percent more plants, and they are producing 12 billion pounds or less. So we are not underproductive; we are a productive nation.

Why then are imports cheaper? The answer has to come down to Government subsidy and low standard of living. That is the only answer you can get.

Let us dispel here now, and once and for all, any question about American productivity and competitiveness. I don't think that that should be a factor for any consideration.

Such staggering productivity that we are talking about, the 2 billion pounds in Georgia of a product that comes out of this State and generates some $400 million in associated taxes for the State of Georgia—such staggering productivity didn't just happen. It has taken years of investment and risk and hard work by dedicated people who deserve Government support at this time.

The President of the United States, Mr. Reagan, says that he may not support such a bill because it has regional limitations, and national retaliation. If this be so, then I submit for your consideration that the region includes the Southeast corridor of the United States, Pennsylvania, New York, Illinois, the Midwest, Kansas, and California. That is some region.

If he says to me that he is worried about the other part relative to retaliation, from what I hear today that is already a fact, so I don't see where that is a counterargument.

We go on now to another factor which I think has some important relationship in this piece of history that has already happened. At the present time, the textile industry spends $1.9 billion a year on machinery, and the important part that we may not realize is that this machinery, 98 percent of it, is coming from overseas.

How did we get into this fix? Twenty-five years ago, you used to hear such names worldwide as Draper, Whiting, Crompton, and Knowles. These were exclusive U.S. companies. And today, we don't hear any of those names really on a worldwide basis.

Well, the answer is simple, and it comes down to if you take a look at history—I think this would substantiate it very well—that an inactive Congress and an inactive President some 25 years ago were not alert to what was going on overseas. Simply, several countries overseas were subsidizing, greatly subsidizing, their research and development. They were allowing research and development to be written off their tax structures; whereas, the U.S. companies did not have that advantage. And what we have today, 25 years later, is we are reaping the bitter fruit of what was sown 25 years ago.

We are now facing the same situation in allowing foreign subsidized textiles. Let's hope history will not repeat itself.

Furthermore, the speed of new machine development has caused additional problems for the textile manufacturing people. These changes have come along so fast, it is like calculators used to be some years back: you walked in and bought one, and a month later it had more functions and it was cheaper.

Today, textile people are investing in machinery that is being obsoleted in about a 3-year time, and yet the Government writeoff is 5 to 7 years. So those people really who are progressive and who want to stay competitive technologically have to pay a tremendous price.

Must we continue to do this? And this is a question that I think should be addressed by Congress sooner or later.

I will now turn for just a moment to high technology. In the area of fiber production—all that includes fibers, obviously is a part of textiles—in fiber production, we have astounding technology developments, and I would point out that the United States is at the forefront of most of these. I think that is an important fact to consider for the future of the textile industry, the technology and the fact of what is coming along.

Today we are spinning fibers as fine as in a cobweb at 250 miles an hour. Imagine, if you will, spinning a fiber that fine out of the back end of a jet. That is what you are really talking about in spinning speed. That is pretty good technology for a so-called backward industry, as some people might think, to call it.

I would like at this time to give you some examples of high technology textiles to broaden the perspective of what is a textile, because a textile is much more than a drapery or a garment. And I don't believe many people appreciate the impact of a strong or weak textile industry on other facets of our economy—rather than just textiles per se.

If you gentlemen have seen one of these, fine. But if you haven't, this is an artificial kidney. There are 7,000 hollow fibers in that unit, and each hollow fiber, if you want to take a look at it, is thinner than your hair, and there is a hole right down the middle. Now, there are 50,000 people a week being kept alive on hollow fibers.

It is interesting to note that the artificial heart that went into Barney Clark was 65 percent textile, including velcro valves to make it comfortable. People don't realize this.

Here is an interesting little piece of textile. It is an artificial artery. A hundred thousand people in the United States are walking around with this in them today. If you have a clogged artery, the chances are that this is going to be put into you sooner or later in order to keep you alive. People who have diabetes have to have this because they get clogged arteries sooner or later, and if they don't use this, gangrene sets in and they are sent to the local hospital and they have to be cut off. So we are dealing with a different aspect.

Here perhaps is a very expensive but important textile. The suture that sews you up at the hospital when the doctor is done operating, and who is going to argue that this thing is not worth $2,000 a pound? Certainly, on the hospital table you are not going to say no, that is too expensive; don't sew me up.

Now, the artificial kidney, if worked in reverse, is also a reverse osmosis unit, if you change those cellulose fibers to nylon fibers. And there are 300 cities in the world right now that have their water supply from saltwater of the sea, because that type of a unit used in the reverse at 400 $\mathrm{lb/in^2}$ pressure is supplying up to 3½ million gallons a day of drinkable water from seawater. And this, I think, is an interesting technological advance.

President Reagan is benefiting right now. I notice he looks a little fatter on television every now and again, and that is because he is wearing a bulletproof vest because of the textile industry, and this is the fiber, and I challenge anybody here to break it. If you can break that, you are a better man than most. That is four times stronger than steel. That is a textile fabric called keular, which I think can take a very high impact.

We talk about optical fibers, and we have two types, one that is used now in communications. This simple little fiber can carry the

Encyclopedia Britannica in 5 seconds by way of transmission. This is still a textile one way or another.

Also, this type of fiber has been used to find kidney stones, and a laser beam can then be used to disintegrate a kidney stone to a powder for internal passage rather than needing an operation. And people walk away in 2 or 3 hours instead of 2 or 3 weeks of suffering. So there is another aspect of textiles.

Finally, I would like to turn to this textile here, and all of your high technology today, all of the circuit boards for any computer, in any television in the United States, is based on a glass fiber cloth. Sixty percent of all the glass fiber cloth made in the United States goes into the circuit board on which electronic systems are based.

Another use for the glass fiber is coating it with a silicone rubber, and this is now the roof of the new stadiums that are going up in the country to get translucency and to get rid of the danger of cave-ins when you have a high snow load. Like in the north corridor, you find many of the stadium roofs that can cave in under heavy snow. They are now putting this type of a textile and putting hot air between two layers to melt the snow. And for you the Hubert Humphrey dome in Minnesota, the dome has 800,000 square feet of surface that at the present time is a textile unit.

We could not have a space program if it were not for specific textiles. What I have here is, Georgia Tech is the center of excellence for high performance fibers, and I will, with your kind permission, demonstrate what I mean by high performance.

This is carbon fiber.

Mr. **Frenzel**. What kind of fiber?

Mr. **Turbak**. Carbon.

Mr. **Frenzel**. Carbon fiber?

Mr. **Turbak**. Yes. It is a graphite fiber. You are seeing this in some of the sports equipment at the present time—you know, the new black tennis rackets and all; and also in other areas.

What I would like to demonstrate for you is why it is important to the space program. Did you ever wonder, when you see these rockets take off from Cape Kennedy, why it doesn't burn up with all that fire behind it? Well, the reason is, it is being protected by a textile.

That is a very hot torch, I assure you. And if you want, you can take any piece of paper and it will light up that fast with that torch. Well, so there will be no doubt about it, that is how quick that will light up [demonstrating].

Let's take that torch and take a look at carbon fibers. And I will stay here as long as you wish and nothing will happen to that particular piece of goods. Now, you know and I know that that is very hot right now because it is red hot, and only a fool would grab it. And I agree with you [Laughter.]

But, you see, that is the type of protection that the high performance products is going to give to our astronauts. And, to show you I have faith in this product, which was made at Georgia Tech, that is——

Chairman **Gibbons**. Sometimes we could use those in the seat of our pants in Congress. [Laughter and applause.]

Mr. **Turbak**. I have here $20 in U.S. money, and I think I will have the faith in my own product that says it won't burn through. Again, I will stay here longer if you want, and you will not burn that $20 bill.

Now, this is the type of protection when we talk high performance. This is what we are looking at as the future of the textile industry.

Yes? Do you want the $20, too?

Thank you. When we send the astronauts up, we put a special garment on them made from PBI fibers. This is a PBI fiber glove, and this is the type of garment that the astronaut would go up in when being shot off.

So you can see there is no question about how we try to protect them. That is a pretty severe test by any standards.

Chairman **Gibbons**. I hope you get your hand out of there.

Mr. **Turbak**. I don't worry about it. I have been through that one before.

To give you some idea, if I could, without belaboring the point of where we are and where I think the industry is going to go, you may want to warm the Senator's hands with this. You don't trust it?

OK, I think we have made the point that the textile industry not only is highly productive but is highly technologically advanced, and it is certainly worth everything that the U.S. Government can do to save it.

What is a little bit disconcerting, I think, from a technical point of view—if I may just finish on this note—and that is that somewhere around 1980, the U.S. Government gave $90 million to foreign countries, foreign developing countries, in order to help them to become more efficient textile producers. In the last 3 years, we have devoted over $5 million in order to help mainland China get on the road to productivity and effectiveness.

The funny part is that for all the textile income that has gone into Government and State coffers over the years in taxes, we find that essentially nothing has been given to the textile schools to do research and development work, and I hope that some way can be found to address this issue in the future in the hopes that we could continue to be of service, which is what we are founded for—to be a service to the textile industry.

Thank you.

[The prepared statement follows:]

STATEMENT OF DR. ALBIN F. TURBAK, DIRECTOR, SCHOOL OF TEXTILE ENGINEERING, GEORGIA INSTITUTE OF TECHNOLOGY

The American Eagle, once the symbol of a proud people has been reduced by vacillating politicians to a humble endangered species. Having successfully done this these same indecisive rationalizers now hunger to eat the Golden Goose.

The Golden Goose of which I speak has provided billions of golden eggs for the U.S. Treasury during its life time. Yearly it produces jobs for 2.3 million people, in 7,000 plants, generating some $50 billion in GNP, spends $1.7 billion for new equipment and produces 12 billion pounds of product. Perhaps this Golden Goose is really a Beautiful Swan that greedy people have not taken time to admire.

This lovely creature hasn't been feeling well lately, becausee her caretakers have carelessly fed her a steady diet of oriental food that she's having a hard time digesting. Unfortunately, many of the people who have benefited greatly from this Golden Goose are now not willing to help nurse her back to health. Greedy retailers continue to pluck her while she's ill not realizing that it will be tremendously expensive later on to deal with her replacement if she dies. Whatever added profits may be made now from cheap imports will be more than lost if the U.S. industry collapses.

President Reagan doesn't want to help because he conceives of this illness as a regional problem and also further fears retaliation. If this is a regional problem, then the region encompasses the southeast corridor, New York, Pennsylvania, Illinois, the Midwest and California - some region!! If there is to be retaliation, then by whom? - - Japan, China, Korea and Taiwan? Just what do we export now that isn't already heavily restricted? Just try to get something exported into Japan, and you'll see what severe restriction really means!!

I. THE PRESENT TEXTILE INDUSTRY

Let's take a hard look at what the Golden-Goose-Textile Industry has and is accomplishing. The American people constitute 5.5% of the world's population but consume 21% of the world's textiles. By comparison Mainland China has 25% of the world's population but consumes 5% of the world's textiles. The main reason is that the people are either rationed in how much they can buy or the textile is prohibitively priced by local economic standards. This is done purposely so that textile goods can be exported to the lucrative U.S. market to generate trade dollars.

The U.S. consumer annually spends $90 billion on clothes out of a total $200 billion for all textiles. Certainly the Golden Goose must have done something right to build-up such a gigantic demand!! The U.S. textile industry is highly efficient and out-produces any other country in the world. The following table clearly shows that China uses nearly twice as many workers in 50% more plants to produce the same amount of product.

	Workers	Plants	Lbs/Year
China	4.3 Million	12,000	12 Billion
U.S.	2.3 Million	7,200	12 Billion

Why then are the imports cheaper? Government subsidy and living standards are the only answer. Let us dispel once and for all any questions about American productivity and competitiveness!!

If we focus on Georgia alone we see an industry that provides 170,000 jobs, produces 2.3 billion pounds of product, pays $2.0 billion in wages and some $400 million in state taxes. Georgia's carpet industry is by far the most modern in the world. It produces 2/3 of all the carpets made in the U.S. which averages to about 1/3 of all the carpets made in the world. Imagine what would happen to Georgia's economy if this Golden Goose is hurt.

Such staggering productivity didn't just happen!! It has taken years of investment, risk and hard work by dedicated people who deserve more support from their government than they are now receiving.

II. TEXTILE MACHINERY IMPORTS

It is important to note that the U.S. used to be the world leader in supplying textile machinery. Such companies as Draper and Crompton & Knowles were once essentially world renowned trade marks of exclusivity in the textile machinery field.

Today the American textile companies spend $1.7 billion per year to buy mostly foreign machinery. Why? Because 20 years ago an inactive President and an unresponsive Congress did not give the American machinery companies a equal tax incentive on Research and Development as compared to the foreign countries. As a result, we are now paying outrageous prices for foreign machinery. What a shame!! What short-sightness!

Now we are facing the same situation on foreign government subsidized textiles. Will history repeat itself?? Let's face it --- governmental apathy cost the U.S. its textile machinery business, and the proud eagle is now begging. The speed of new machinery development has caused additional problems for the textile manufacture. Most equipment is now being made obsolete on a 3-year cycle - but the present government write-off period is about 5-7 years. Why must progressive companies pay this penalty for trying to stay competitive??

III. HIGH-TECH TEXTILES

In the area of fiber production, we see amazing technology. A typical man's shirt is made of about 6-oz. fabric. If this is a standard 1-denier fiber, then this shirt contains about 900 miles of fiber - enough to stretch from Atlanta to New York City. Today's fiber producers spin this at 250 miles/hour. Imagine spinning a fiber the size of a cobweb at jet airplane flying speeds. Today's textile industry spins the fiber and makes the cloth with previously undreamed of efficiency.

Yet, these present-day technologies fade in comparison to the emerging High-Tech uses being evolved for textile fibers and composites. For example, several areas where textiles are playing a leading role are:

A. MEDICINE

1) The artificial kidney is made from 7,000 hollow fibers which are about the size of human hair. The blood passing inside such hollow fibers is then washed free of metabolic toxic products and body wastes by an external cleansing solution. In cases of drug overdoses, the blood can also be rapidly cleansed by dialysis to save lives where normal procedures would result in fatality. No hollow fiber - no artificial kidney.

2) The artificial heart valve is a mounted in a knit tube of polyester or other synthetic fiber yarn. No textile - no heart valve.

3) Eye-lens implants made from clear plastic require 2 polyolefin fiber loops to hold the plastic in place. No loops - no implants.

4) Sutures for sewing up patients after operations are among the most expensive textiles in the world probably worth in the neighborhood of $2,000/lb. Have you ever heard of a patient arguing price? -- Quality textiles are important!!.

5) Carbon fibers - made by charring textile yarns in oxygen free atmospheres at up to 3,000°C are "non-antigenic" (i.e. not rejected by the body) and are being developed as reinforced composites for making artificial "bones" and other replacement parts.

6) Disposables - Sterile nonwoven coverings used on the operating tables, the surgeon's nonwoven masks and disposable hospital gowns worn by the patients are all examples of textile technology at work.

7) Artificial Skin for badly burned patients to keep them "sealed" from infection which is the biggest problem in such cases.

8) Optical Knives - Recent medical advances in the use of laser and optical fibers to help to remove kidney stones without surgery.

9) Arteries - In surgical procedures where replacement arteries are needed to replace damaged or clogged arteries, knit textile structures are implanted.

B. SPACE, AIR TRAVEL AND DEFENSE

1) Carbon-Fiber Airplanes - The special qualities of high modulus, high strength, light weight and nonflammability of carbon fibers makes them ideal candidates for use in the construction of future airplanes. The new Lear jets and the new Boeing airplanes currently under design use carbon-fiber cloth stretched over a metal frame as the basic airplane-body-building unit. Such lighter weight airplanes give vastly improved fuel economies. Carbon, Kevlar, or Boron fibers are also now used as composite reinforcement in making wings and other parts in the Boeing 757 and the Grumman A-6, and F-14 military aircraft.

2) NASA Space Suits are especially demanding fabric structures necessary to meet the unique performance characteristics that the astronauts encounter. Circular woven clothes are being made at Georgia Tech for the next generation of space suits. PBI fibers are also used.

3) Airline Brakes for essentially all U.S. airplanes are made from carbon-fiber composites because these are the only materials that can withstand the extremely high temperatures that would be generated if a take-off had to be aborted. Metals will all melt under these conditions. Textiles are indispensable.

4) Nose-Cone Covers for reentry vehicles contain carbon fibers due to the high-temperature requirements. Carbon fibers can withstand direct exposure to flame without suffering damage.

5) Whole-Body Gas Suits - The current chemicals used for gas warfare can kill by absorption through the skin and therefore do not have to be breathed into the lungs to be deadly. This means that the "whole body" must now be protected in the event of such exposure. Presently special suits are being made where the fibers employ high absorptive technology principle to achieve this protection.

C. COMMUNICATIONS

The current trend towards using lasers and fiber optics to transmit phone conversations is definitely the direction of communications for the future. At present, a fiber-optics bundle the size of a pencil can replace the massive copper cables. The preparation of such fibers is closely aligned to known textile-fiber-spinning practices.

D. STRUCTURAL AND GEOTEXTILES

1) Drinkable Sea Water - Technical advances in the area of reverse osmosis now allow properly prepared hollow fibers to be used in

the removal of salt from sea water so as to make it potable. At present, hollow-fiber reverse osmosis units are available that can supply whole cities (3.5 million gallons/day) with acceptable water quality at a commercially feasible cost. - Textiles at work!

2) Super Domes - many of the stadiums now being constructed are using coated textile fabrics for the dome roofs. This is particularly true in the Northern geographic areas where heavy snow loads can (and have) caused collapse of the steel and concrete designs.

3) Reservoirs - A large number of farm ponds and city water supplies depend upon rubber-coated textiles as bottom liners to prevent ground seepage of the stored water - It's clean, efficient and durable.

4) Road Beds - The upheaval of road beds (and resulting pot holes) is a major problem in areas with severe weather conditions. In such cases lining of the road bed with textile nonwovens has significantly improved the stability and durability of the road or the patched area.

E. SPORTS

1) High modulus fiber reinforced composites now result in the new super performance of golf clubs, tennis racquets and fishing rods.

2) Glass fiber reinforced water skis and modern durable fishing boats are preferred articles of commerce which would not be possible without textile fibers.

3) The GM Corvette super sports car has a glass-fiber-reinforced molded body. Many textile fibers are 4 to 5 times stronger than steel yet much lighter.

IV. TEXTILE EDUCATION, RESEARCH AND DEVELOPMENT

Many of the more progressive mills which have modernized are wonders of electronics and automation. This requires highly-skilled technical help, and graduates from the School of Textile Engineering at Georgia Tech are finding exceptional job opportunities available. We could presently place about 3 times as many students as currently are graduating in excellent high-tech positions.

However, we must continue to stay at the cutting edge of research and development. It is truly astounding that neither the Federal Government nor the State of Georgia which derive so much financial benefit from the textile industry directly allot any money for Textile R&D. North Carolina however is responsive and allots $1.3 million for such efforts at N.C. State University.

One of these days neglect and greed may spell the demise of the Golden Goose and a proud heritage could become a simple fairy tale.

Mr. **Frierson**. Congressmen, I think that concludes our comments. I believe you can see how much we think of the textile industry and the needs of this country, how important it can be to its future and how important it is today.

Unless there are some questions, that concludes our remarks. And we would ask for your thoughts, your consideration, and hopefully your action on House bill 1562.

Thank you.

Chairman **Gibbons**. Thank you, Mr. Frierson.

Let me say it has been a most interesting panel. We are running a little behind our schedule, but that is not a critical problem. I hope that all the Members will take the opportunity to examine this panel to get the benefit of their knowledge and their experience.

I guess there is no doubt, even before we came here, in the minds of anyone on this panel that we have problems. We are seeking solutions that will improve the situation, not only for the textile and apparel industry of the United States but for the United States as a whole.

Perhaps it is because of the thinness and the grayness of my hair, that I take a look at this in a long-term fashion. We came out of World War II obviously as a great leader of the industrialized nations of the world. Other nations had destroyed their industries and had destroyed their economies, and yet we felt pretty good about ours.

By 1947, we became almost panic-stricken that we had won the war and created a great debt in this country. It looked like all of the other nations on the Earth were going to go Communist, and we started a program then that we called the Marshall plan, and we gave away a few billion dollars of the taxpayers' money. But we did far more than that; we set up an international monetary agreement that deliberately overvalued our dollar to encourage Japan and Europe to build industry and to export and regain their industrial strength. That overvalued dollar lasted until 1970 when finally President Nixon was forced to come off of that monetary agreement that we had entered into in the early 1940's.

We also entered into the General Agreement on Tariffs and Trade which offered some great advantages to other countries. We are not real sure why we did it, except we know that the motive was to save them from communism, and it worked real well. We do not have Communist societies in Europe, at least Western Europe, and we certainly don't in Japan. We also allowed them to forgive at their borders their cost of government, and at our border we accepted not to take off of our goods the cost of government. That is a powerful advantage that they have in this whole system.

And now, because of the vested economic policy, we are running a huge Government deficit. I am not talking about trade deficit now. I am talking about the fiscal deficit, that big public debt that we hear so much about.

Another source of great concern is that in 4 years we have run up a billion, trillion dollars' worth of debt. Had that been allowed to exist in a free market, we would have inflation like Brazil or Argentina or Israel. And yet, because of wise monetary policy and brave monetary policy, we have had a very, very low inflation rate.

And we can thank Mr. Mocher and his elves on the Federal Reserve Board for that.

But it has also had a terrible side effect upon America. That very tight monetary policy, as you know, has driven up the real cost of interest to the highest real interest rates this country has ever seen.

Now, you can say, oh, back 4 years ago we really had higher interest rates. But the problem is, we didn't have very high real interest rates 4 years ago because inflation was so high. I am not preaching high inflation rates, but we do. We are kind of like the fellow who is sitting on the edge of a cliff in an air-conditioned Cadillac and the stereo music going full blast and he has got one foot on the accelerator and the other foot on the brake, and both of them are pushed down to the floorboard. The music sounds great; the air-conditioning feels good. But if he takes his foot off of either one, he is going to be in trouble.

That is where America is today. Indeed when I look around at industrial America and farming America, I am surprised that we have survived as well as we have with that kind of policy. Perhaps it is just now coming home to roost on us.

Now, that is not the whole problem. Obviously, as you have pointed out, and the committee has pointed out, in the trade area there is the matter of reciprocity. We are not being treated fairly by some of our trading partners, and we still have got a whole host of goods flooding into this country.

Now, you in the textile/fiber/apparel area were pioneers in seeking Government intervention in this whole trade problem. It started, I think, in 1957 when we worked out a small arrangement with the Japanese, and then it kept spreading until we got to the multifiber arrangement.

My question to you as a panel is: What is wrong with the multifiber arrangement? What specifically do you think ought to be done about it? I know you support Mr. Jenkins' bill. We are here to consider Mr. Jenkins' bill. But let's first just look at what is wrong with the multi-fiber arrangement.

Mr. FRIERSON. Let me start by responding, Congressman, I think there are an awful lot of things wrong with it. One thing, it doesn't work.

Chairman GIBBONS. OK.

Mr. FRIERSON. I sat in Washington for some presentations in 1980 concerning the multi-fiber arrangement of which we are operating right now. Members of the Government were very specific in explaining to us that they felt very comfortable with this proposed rate of growth of imports to about 6-percent maximum. Obviously, that hasn't been the effect. There are a lot of mechanical reasons within the system in terms of carryover and category and so forth that don't work.

I think, too, we feel that there has been a lack of dedication in the administration to make it work, and that is the reason why we are coming to you—because we think unless there is legislation that is binding on the administration, it is very difficult to get anything accomplished through the administration.

For a lot of reasons they have not seen fit to make—certainly made more calls than had ever been made, and we have explained that, too—but there is just a lot of things that haven't been enforced. And, let's face it, we are operating in a different environment than we were 4 years ago. There is no question about that, and we understand that.

We also understand there is a total problem, not only in the textile industry but the whole manufacturing base of this country, the farming base of this country and the mining base of this country. And it is a very severe problem, and it certainly deserves everyone's attention.

I think if we could get some people, who are more mechanically informed on the MFA probably than this panel here, to really sit down and go through the mechanics of what went on with it—but certainly it isn't functioning. And I think one of the things that H.R. 1562 does address is that we need to police this here in this country. We need a licensing system that originates here.

There is no way we can go out and figure out what is going on in Peru and China and Indonesia, and so forth. There is no way we can be effective trying to find out what subsidies exist in each country. We need to set the quotas or the limits here and then have them operate within those limits. And I think that is one thing that has built up to address that would be extremely helpful.

Chairman GIBBONS. Are there other members of the panel who would like to comment on my first question there? I have got some other questions, too.

Before we continue, however, while you are thinking perhaps, let me introduce Mr. Fowler. Mr. Wyche Fowler, of course, as you all know, is a Member of Congress who represents one of the Georgia districts in the Atlanta area. We are very proud of him. He has been a member of the Ways and Means Committee for quite some time.

You know, Florida is about twice the size of Georgia, and we only have half the number of members on the Ways and Means Committee. That tells you something about the relative clout of Georgia and Florida in the U.S. Congress.

Maybe my fellow Congressmen just think the Georgia crackers have got more sense. We are very proud of Mr. Fowler, he does a great job and he is going to be with us all day tomorrow in our hearing in Atlanta on some of the other trade problems, so, Wyche, we are glad to have you here.

Do any of you on the panel manufacture overseas and, to get back to my first question, what is wrong with the MFA?

Mr. FRIERSON. Mr. Monk would like to respond to that.

Mr. MONK. Well, I am no technician by any means with the MFA, and as Dan Frierson said, we can certainly get you the experts from our standpoint to walk you through it.

From my viewpoint, I think there are several things that I would like to comment on. No. 1, as you, of course, know, it does not cover all fibers. It is basically cotton and manmade fibers, so they are all called fibers outside the MFA, or silk, ramie, linen, some of these, and there has been tremendous growth in those fiber areas.

I think it does take a very dedicated effort of someone, and that someone, of course, being the executive branch, the administration, to make the MFA work.

I think it has been our experience in many instances that the administration does not get concerned until the spurge has taken place, and until the exporting nations have taken a massive part of our market, and I think if you talk to some of them as we have, particularly in the Department of Commerce, we have had this pointed out to us.

So in trying to find out how they look for calls and how they proceed, and basically they go down a list and look for so-called disruptive effects.

My observation on that is that it seems that the disruption has taken place by the time that certainly the calls are made, but I think it does take quite a dedication. It takes tough, hard negotiators, and I am not certain that we have had the type of hard negotiators that we need who have the American industry's best interests at heart sometimes.

I had a conversation with a member of the Department of Commerce, one of the negotiators, trade negotiators, who was quite proud, going back to South Korea and carpet, that they had gotten South Korea to lift the ban on polyester carpet and I said, well, are we as proud of the fact that they turned right around and put a prohibitive duty back on it?

So I said, you know, we are right back where we started from, so I think it is an exceptionally complicated thing.

There are many other trade laws that I think—and tools for the administration to use, the countervailing duty provisions and this type thing which, of course, are not specifically addressed here, but I think it has been by and large a lack of dedication, and as I indicated and read briefly earlier the stated purpose out of it, I believe it is article I of the MFA is to prevent disruption, to provide for orderly trade and to prevent these massive disruptions, and that certainly I see not happening, and it does not in my opinion speak adequately to the areas that Dan touched on of subsidy.

We know there are Government subsidies. We know what they are. We know how they work, but it certainly in no way touched on what I would call totalitarian governments and government businesses. When you are dealing with mainland China, for instance, what is their motive?

Their motive is not a profit motive to pay workers. Their motive is to get hard currency, to sell at whatever price the Government decides they want to sell.

We are bound by certain economic restrictions and basically, we have to sell at a profit to stay in business, and be able to pay our employees, but the Chinese Government does not have that restriction.

If it costs them $1 to make a yard of fabric, they can sell it for 50 cents a yard if that is what they desire to do, and I think there has been a lack of dedication to try and overcome those type of problems that have helped create this big flux.

Personally, I see it as an exceptionally complicated issue. It is one that I have a hard time grappling with personally, and I think maybe what it requires is looking at this Jenkins bill as the first step of Congress toward setting a consistent trade policy for this country, and one in which we can build in some equity in our trading relationships.

Chairman **Gibbons**. I will ask you to be brief in this next response, and I may be asking the wrong panel. Have you had any experience with our countervailing duty laws, and are they effective? What is your brief response?

Mr. **Frierson**. The yarn industry itself has had quite a bit of experience with it. Peru is a good example where there were subsidies being given. It is very difficult to go down to Peru and find out what all the subsidies are.

Once you do it, they are changing pretty fast, and by the time you prove entry which must be done and so forth, it is a long and laborious task. It also requires a lot of money.

A lot of lawyers are involved, so it really becomes an unworkable system in that there are so many categories of products with you have to prove.

Another good example is Indonesia, where we felt clearly there were some subsidies taking place. Our U.S. Trade Representative the day before the action was to have been taken on the subsidy made them a signatore to the subsidies bill, so in effect, that withdrew everything we had done, all of the money we had invested in trying to provide the subsidies did exist, and so I think realistically speaking, the subsidy system does not work effectively.

Chairman **Gibbons**. Let me ask you about licensing, you say that is an appropriate way to control the surges that so adversely affect you. How would you allocate these import licenses amongst the Americans? How should that be done?

Mr. **Frierson**. I think what we are talking about is licenses that would be available to exporters in other countries, in sending goods to this country, so I think when we negotiate an agreement with, for instance, say, a long drawn, they would have *x* number of each type product that they could export with a discount.

Granted, it is going to take a lot of work to figure out the best way to make it function smoothly, but I think as long as there is a maximum firm figure, then we have got something to move from.

Right now, we are looking at a balloon full of water, you punch in here and something bulges out over there. There is no way to get your arms around the problem and until we set some maximums with the major exporting companies, I don't think we will get our arms around the problem.

As Richard mentioned, the non—the ramie, the silk and the other fibers that aren't even included in the MFA, do create a lot of problems, and as you mentioned the value impact system and particularly in Europe, it has tremendous impact on us.

Chairman **Gibbons**. I had wanted to ask Mr. Monk about the value-added taxes, but decided I would let that pass. Would you try to explain from your perspective what that does to us?

Mr. **Monk**. It just simply makes our product that much more expensive going into a country to which we are exporting. We are not able to export to Brazil so we haven't really gotten into the details there, but as I understand, it is simply a value-added type of tax that is added on to the imported product as it comes into the country. Not a VAT tax as in the European tax system or the tax system Congress has debated from time to time in this country.

This is simply a tax called a VAT tax put on to an import coming in, so, of course, the effect to us is that this is one more addition to the build-up in the cost of our product going into that country.

I think you could call it anything you want to, whether it is a VAT tax or a military tax or whatever it might be, that is the effect that we see.

Chairman GIBBONS. Have any of you, or anyone in your industry that you know of, ever tried to quantify what impact this value-added tax has—it is a use tax really, like we have between the States, but it is at a much higher rate. Have any of you all been able to quantify what it really means in terms of dollars, or let's say, your product?

Have you seen any research on that? We have been hunting for some, and that is the reason why I ask the question.

Mr. MONK. I haven't seen any.

Chairman GIBBONS. It is very hard to determine. It is a very unusual set of circumstances. I know it is large. One day, I was with this committee when we were in Europe, and I had lost an overcoat. So I bought an overcoat in France, and went through all the paperwork, which really wasn't quite extensive, but when I got back, I got a nice fat check from the Chemical Bank in New York for about $30 or $40 which was value-added tax they had remitted to me.

That has always kind of worried me. In effect, I was getting back the cost of government on that overcoat from them. When our goods go to their market, the goods not only carry our cost of government, but they add their cost of government on top of it when it gets there through the value-added tax system. That, to me, seems to be a serious technical flaw. It is probably one that we entered into either inadvertently or deliberately back in the 1940's, when we were trying to save them from communism, and we are still carrying that burden.

Mr. Jenkins.

Mr. JENKINS. Thank you, Mr. Chairman.

I know we are running late, and I want to express my appreciation to the panel and Dr. Turbak. I thought that your testimony was a bit different from some of the other panel members. The Georgia Tech technology influence was extremely interesting to this panel, which indicate without any question the textile industry is not a backward industry. It is in the forefront of technology, and when we talk about high technology, we are talking the textile industry. I am very grateful to you for your testimony and for the entire panel.

Thank you very much.

Chairman GIBBONS. Thank you.

Are there further questions? Let us get Mr. Pease first.

Mr. PEASE. Thank you, Mr. Chairman.

My question is for Mr. Bruce. I was interested in your statement that, "If it wasn't for government policies and regulations, I truly believe we could be world-competitive." Does that mean you would not have to worry about these subsidies and restrictions from other countries?

Mr. BRUCE. I would include the subsidies, and I would include the mountains of work that is required just to keep up with the reporting procedures, you know, it is as far as the pollution control and water control and OSHA control, you know, we would do that probably on our own without any problem, but the paperwork that goes with it and the cost of that paperwork is atrocious.

Mr. PEASE. How much has your company invested in capital equipment over the last 5 or 10 years?

Mr. BRUCE. The past 5 years, $50 million.

Mr. PEASE. $50 million, OK. And what are your annual operating costs, total annual operating costs?

Mr. BRUCE. That is a good question. I don't know that I could answer that today. It would be just purely a guesstimate and I wouldn't want to do that.

Mr. PEASE. Do you know what your sales are, total annual sales?

Mr. BRUCE. In the area of textiles alone, I would guess somewhere around 160, or 165.

Mr. PEASE. $165 million. Your cost would be $150 million or so probably, somewhere close to that.

I am interested in your emphasis on Government regulations and water pollution control and air pollution control and OSHA, you identified in the conversation as a burden.

Yet, you say your total operating cost for those items is about $500,000 a year, your total operating cost would be about $150 million a year, that would leave some fraction of 1 percent.

You say your investment over the last 5 years has been $50 million, your capital investment and all research has been over the years about $2.5 million, which again would be maybe 2 or 3 percent.

Mr. BRUCE. Well, perhaps I can explain that, the majority of our operating costs would be raw material, in the case of cotton thread close to 50 percent of our cost is raw material.

Mr. PEASE. One of the other witnesses mentioned a survey of industry executives and 100 percent said that the second largest cause of your problem is Government regulation. I find that a little curious when I see in your own company's case, you spent maybe a third of 1 percent of your total operating costs for these purposes.

It is hard for me to understand how that small a percentage can loom that large in the problems that your companies have.

Mr. BRUCE. We have four divisions and I can tell you that in two of the divisions last year, if we would have taken the cost of Government policies, they would have been in the black instead of the red.

Mr. PEASE. It must been a pretty small profit. Thank you, Mr. Bruce.

Chairman GIBBONS. Mr. Anthony.

Mr. ANTHONY. I have a few questions.

Mr. Walker, in regard to addendum 7, the survey that was taken of your company executives, I noticed that in addition to the obvious, that is, of course, industry backing, that changes in legislation is your No. 1 priority. Does this include tax credits for capital expenditures?

It shows up on both the major companies survey and on the smaller companies survey.

How does that juxtapose with the Treasury proposal to do away with some of the tax credits? You realize that the Treasury proposal has been submitted to the Congress, and is something that we probably will be looking at before the year is over. ITC, investment tax credit, will be eliminated and ACRS will be changed.

My question to you and the panel is, Would that be a harmful or devastating thing to this industry or to the taxpayers if it is approved?

Mr. WALKER. Let me take a shot at it. I am sure some of these gentlemen are better qualified than I—I am not a tax man, I am an economist. As Dr. Turbak says, but certainly they would hurt us.

I would have to go back to what Dr. Turbak said about textile machinery, and as a result of no healthy research and development, no tax break 25 years ago, today, as a result, very little textile machinery is being made in this country.

Now, this particular survey was made by a textile machinery manufacturer, or financed by a textile machinery manufacturer, but to answer your question, if you take off the tax incentive of adding new machinery, it is simply going to mean that we can't deduct the 10 percent, let's say, and it is going to mean that the effect of it is that we will pay more tax, which in turn is going to mean that we will pay more for equipment or modernization.

Yes; it will hurt just like any other tax proposal that reduces the tax rate, so to speak. Is that what you are asking?

Mr. ANTHONY. Yes; that is exactly what I am asking.

Mr. WALKER. The 10-percent investment credit.

Mr. ANTHONY. That is a question that this committee will have to wrestle with in a different forum. However, in saying we want to lower the tax rate, we may be taking away something that will reduce imports. I don't think we can legislate in a vacuum.

We just can't look at imports. In doing so it may cause a problem when we have some provisions in the Tax Code that take away, and it may also harm you at the same time, whether or not it addresses the import problem.

Mr. WALKER. Let me also add one other thing. You know, we had several perceptions of what might take place. We had one proposal in administration, and then we changed and had another proposal, and all kinds of discussions, and I really don't know.

Mr. ANTHONY. We expect those will come forward in May if we meet our deadline.

I will add, if the administration does come forward, for you to examine those investment tax credits as to how it would affect your industry, and to make some note of that to us. Because you do list it in your survey. It does not show as being very important in your survey. I don't think we can answer it now.

Mr. WALKER. We have ATMI statistics that deals with these things, and I feel sure that we will have problems. Let me just add one thing to a question that Mr. Pease asked a minute ago.

We are currently under a Government regulation, a right to know on chemicals, and as to one of their questions, an industrial hygienist recently stated that it would cost $20 per employee simply to accumulate the information that we need to inform our employees, to answer your question on regulation.

That is simply to accumulate the information so that we can "properly instruct our employees."

Mr. ANTHONY. Mr. Chairman, I want to close with a comment regarding the conclusion of the survey. There are two things that are very important, and that the public needs to be made aware of because it reflects the attitude of the executives who are managing and operating these companies.

No. 1, you say you don't need Government subsidizing. I think that is very important. You are asking for a level playing field so you can be competitive.

No. 2, although you are a labor-intensive industry, you say that you do not want the additional burden of a subminimum wage. Those are two very important things that ought to be left to the public.

I think this exemplifies your attitude as to your objectives. That is, if you are given the opportunity, you can compete and grow.

Chairman GIBBONS. Mr. Fowler?

Mr. FOWLER. Mr. Chairman, I would like to welcome my colleagues to Georgia.

I was with a very large group of Southern Baptists and we passed the offering too many times this morning. I apologize to you all for being late.

Mr. Chairman, I just want to say briefly, I think the last 8 weeks of my traveling around Georgia specifically for the purpose of learning about the problems in the textile industry has been extremely helpful to me. I have been in my friend's district, in Baldwin, and Ballground, and all up and down the South. I just want to echo what Mr. Pryor and Mr. Lumkin and others have said.

I am certainly learning from this experience that we simply cannot recapture our fair share of the market without some affirmative action. It cannot be done by chasing the Peruvians, the Chinese, or the Koreans.

Somehow, we have to get back to our boards and our courts that control imports into this country, and make a determination by American standards and on American soil as to whether or not present trade laws are being violated and whether or not the international agreements are being circumvented. We also need to make sure that this administration and any future administration upholds our international agreements and our trade laws in this area.

I think that in light of our present trade situation, Mr. Jenkins' bill, which I have cosponsored along with others, is a mandatory first step to make sure that we have registered support for some sort of control over our own destiny in this country.

I thank the panel and all who have participated. I am delighted to be with you.

Chairman GIBBONS. Thank you very much, gentlemen.

Let me see, we are running 38 minutes behind schedule. We have a tight busy schedule today, and we are not going to slight anybody, but from now on, I probably won't talk as much.

Our next witness is Mr. Peter Hutchinson, Dayton Hudson Corp. Let me warn the audience—I shouldn't say warn the audience, we are all Americans—our next witness may not be the most popular person in this room when he gets through talking, but we are all Americans, and we are all tolerant. That is one of the things that makes America great.

We have rules that we don't allow the audiences to applaud or boo in Washington. We are not in Washington, so I have not been enforcing that rule. However, I hope that you will treat this gentleman with respect as every American is entitled to. He may not agree with all the other previous witnesses, and he may not agree with the great majority of people in this audience, but we appreciate your coming here, Mr. Hutchinson. We might give you a Profile in Courage, and perhaps a little piece of this when you leave, or something.

And so, with that complete and fair play in mind and with that introduction, Mr. Hutchinson, we welcome you.

STATEMENT OF PETER C. HUTCHINSON, VICE PRESIDENT, PUBLIC AFFAIRS, DAYTON HUDSON CORP., ON BEHALF OF THE RETAIL INDUSTRY TRADE ACTION COALITION

Mr. HUTCHINSON. Thank you, Mr. Chairman, I appreciate that kind and protective introduction. This may be a situation where I will be in favor of protection.

I feel a little bit like the prospective bridegroom who has come to meet the entire family of my proposed wife, and they are trying to size me up and they are not all that sure that I am acceptable and I might point out, this is a very large family.

Chairman GIBBONS. Well, they are fair.

Mr. HUTCHINSON. I believe they are fair, and I have listened intensely to everything that has been said this morning, and I can tell you that there is almost nothing that I have heard that I disagree with.

Chairman GIBBONS. What did you say?

Mr. HUTCHINSON. I said there is almost nothing that I have heard this morning, and I have heard the fundamental wishes and desires of the people in this room, that I disagree with in any way. In fact, those are the same desires, hopes, and aspirations that I have for myself and my family.

Chairman GIBBONS. Thank you.

Mr. HUTCHINSON. I overheard at the table next to me at breakfast this morning, and I apologize to those folks for overhearing, but one can't help it when you start hearing people talk about you.

A gentleman asked the question, "Why in heaven's name is this guy here? Isn't it like Daniel going into the lion's den?" Well, I don't think so, and I hope not.

Our company, which is a retail company, buys directly over 100 million dollars' worth of merchandise from the State of Georgia, and indirectly, we probably buy two or three times that amount from the State of Georgia.

The people in this room and the people of my company are all part of a single chain of industries and firms that are trying to do their darndest to serve the needs of the American customer for textiles and apparel.

In more ways than one, we are on the same side, and I regret that in the course of the last year, we have consistently found ourselves positioned on opposite sides of the table. I don't believe that is our fundamental interest, and it certainly is not the interest of our company.

We are committed to the State of Georgia, we are committed to purchasing merchandise here. We believe that these firms are some of the best managed, most accomplished textile and apparel firms in the country.

It is not in our interest for the people in this room to lose their jobs. In fact, as a retailer, it is not in our interest for anyone to lose their job.

These folks are customers. They are our customers and they are the customers of our competitors. Our whole industry depends on a productive economy, and it is that productive economy which is the central focus, I believe, of all of the people here and in the retail community as well.

I also thought it was appropriate for a retailer to be here today so that the folks here could see that we don't wear horns, and you won't find a tail hanging out of the back side of my pants.

I thought it was equally important for our company to be here to see and listen and learn from the people who are being affected by the changes going on in this industry.

Finally, I want to have the opportunity to spend a little bit of time talking about the future of both the retail and the textile industries in this country.

In the retail business today, there presently are too many stores competing for too few customers. We are in a marketplace that is incredibly competitive. In our company alone, for every dollar that we sell in merchandise, we retain slightly over 3 cents in profits, which are distributed to our shareholders.

At the retail level, profitability in sales have been going down for some time. The margins in our business have been going down for several decades.

Ten years ago, our company made 80 percent of its sales through full-line, full-service department stores. Today, 80 percent of our sales come from discount and promotional department stores.

Why has that occurred? It has occurred because the American consumer has become smarter and smarter in their purchasing decisions.

Where they had wanted extensive service from a department store at one time, they have found that they now have the information they need to make buying decisions on their own. As a result, the department store has been on a steady decline for some time.

In our company, I am sorry to say, we sold off part of our department store business. We have closed some department stores and, yes, we have faced the prospect of layoffs. Layoffs are not fun. They are not fun for anybody, for the employer, for the community, and certainly not for the employees affected.

It is not in our interest to have people laid off. By the same token, it is not in our interest to maintain stores that can't compete effectively in the marketplace. We only do ourselves and those employees a disservice.

So I would say to you, that change is much in the offing and all of the changes you have seen in the last 10 years will pale in comparison to the change you are going to see in the next 10 years.

Along with those changes, our textile and apparel industries will change as well. The industries will change because the demand goods will change. The generation that bought hundreds of pairs of blue jeans 10 years ago are going to buy something else in the future.

The people who are starting new families today are going to be buying children's clothing, whereas 10 years ago they weren't buying children's clothing.

The customer is going to became smarter and smarter and will have more access to information. As we think about the future of retailing, textiles, and apparel, I see three fundamental questions that really deserve extensive consideration.

First, what, if anything, can be done to assist the textile and apparel industries in the adjustment, which I believe is inevitable?

Second, what can be done to assist those workers in the textile and apparel industries that find themselves, as a result of incredible productivity increases without a job.

And third, what can be done to break down the barriers that keep our textile and apparel industries from exporting overseas?

I would like to make three basic propositions with respect to those questions and then leave time for questions.

First, with respect to adjustment by the industry. We have heard this morning ample testimony that this is a productive, creative, thriving industry. Their competitiveness in the future depend on even more adjustment.

I would suggest that the committee consider, to the extent that adjustment is a priority for this industry, a tax credit and/or a ventured capital fund to be made available as a basis of experimentation.

The first example of our experiment in this industry is currently ongoing at the Charles Draper Laboratories in Cambridge, MA, where a whole new technology for the production of apparel is under study. We believe more experiments like this should be seriously considered.

What about our worker assistance? Productivity improvements by there very nature cut the need for employees. When employees are affected, when employees are laid off, it really doesn't matter about the cause, what matters is what you do about it.

We have thought very hard in our company about this question, because we see it all over the country. We see it in the iron mines of Minnesota, in the copper mines in Arizona, and in the oil industry in Texas and Oklahoma.

Every time anyone of these industries is affected either by the economy or productivity changes, employees are affected, and those employees are our customers.

We believe that any effective assistance program for employees, must be composed of about six or seven parts, which I want to outline here as a suggestion and maybe you will consider it.

First, obviously, an employee that is laid off for any reason ought to have access to unemployment compensation. Second, and perhaps equally important, any employee that is laid off ought to have access to health care insurance to be assured that he or she and their family are covered and have sufficient confidence in their health for the future.

Third, we believe that training assistance, job search assistance, and relocation assistance should be made available not only for employees but for their families, because, as Congressman Jenkins pointed out, this is a family concern and not an individual concern.

And finally, we believe that perhaps the committee ought to consider providing wage credits which will be made available for future employers who aggressively seek out and hire these employees for jobs in the future.

We know in our industry, that the job tax credit for example has had a tremendous impact in helping us to look at new markets for potential employees.

Finally, let me say something about export barriers. We oppose export barriers in all forms and in all countries. To the extent that our domestic industries are being penalized, we believe that this Government and its representatives should be as aggressive as any government in tearing export barriers down.

It is wholly inappropriate for this country to say that it is in favor of liberalized trade and not do anything to assist those companies in this country who seek export overseas.

We know that these barriers exist. We stand ready to work with the committee to try to break down these barriers.

Let me conclude by saying simply, and with as much commitment as I am able, we believe we are on the same side here. We may disagree with the means, but our motives I don't believe are any different than the motives of the employees and the management of the textile industry.

We would welcome the opportunity to work together. Frankly, I have personally been disappointed because more opportunities have not been available.

Through the offices of this committee or any of its members, through the offices of the administration, or through any other mechanism, the retail community stands ready to sit down at any time, at any place, with anyone to discuss how we can work together to help us meet our major long-term need, which is to continue to prosper and serve the American consumer.

Thank you, sir.

[The prepared statement follows:]

STATEMENT OF PETER C. HUTCHINSON, VICE PRESIDENT, PUBLIC AFFAIRS, PAYTON HUDSON CORP., ON BEHALF OF RETAIL INDUSTRY TRADE ACTION COALITION

My name is Peter Hutchinson. I'm Vice President of Public Affairs for the Dayton Hudson Corporation in Minneapolis, Minnesota.

I'm here today on behalf of the Retail Industry Trade Action Coalition (RITAC). RITAC is a group of 38 large and small retail companies from throughout the country and seven retail associations which have joined together to work for an equitable and productive international trade program. RITAC represents the nearly 1.6 million retail companies throughout the nation, which employ 15.5 million workers and distribute to the American consumer 35% of the nation's GNP.

As an officer of the Dayton Hudson Corporation, I am particularly pleased to have the opportunity to appear before this subcommittee at their field hearing in Helen, Georgia.

Our company annually purchases nearly $100 million worth of textile and apparel merchandise from Georgia manufacturers. Many of those purchases are from companies headquartered or manufacturing within the ninth congressional district. Those purchases flow from Georgia, through our distribution system, to consumers throughout the nation.

This country's fiber, textile, apparel, and retail firms represent a continuous chain of industries committed to meeting the clothing and textile needs of the

American consumer. The health of all of our businesses depend on the health of the consumer. We are each dependent on the success of the others in our effort to meet the consumer's needs. As the industry most responsible for linking textile and apparel manufacturers to consumers, retailers are vitally concerned about maintaining the health of both. Domestic textile and apparel manufacturers supply 70% to 80% of the textile and apparel merchandise sold in our stores. We buy domestically because our U.S. suppliers offer us reliability, proximity, shorter lead times, creativity, and a natural understanding of the fashion-conscious American consumer. A healthy domestic industry, producing merchandise of value to our customers, and employing workers who themselves are part of our customer base, is important to us.

I am here today to testify in opposition to HR-1562, which seeks to increase the level of protection provided to the textile and apparel industries. Our opposition is based on our conclusion that the current textile and apparel import control program has been, and continues to be, harmful to the American consumer; the economy as a whole; and to the textile and apparel industries themselves. Further restrictions are unjustified, unnecessary, and would be counterproductive.

The current textile and apparel import controls hurt the American economy in four ways. First, according to a 1983 report from the Center for the Study of American Business, import quotas give a $4 billion windfall annually to foreign governments and manufacturers. Quotas confer a right of access to the American market to selected foreign countries and foreign manufacturers. Because quotas limit access to our market, they become valuable in their own right. At a time when this country is becoming a debtor in international trade, textile and apparel quotas force Americans to send billions of dollars overseas each year just to pay for quotas--not for fabric, not for labor, not for finished merchandise, but just for the quotas themselves. In fact, a whole industry has emerged in places like Hong Kong just to buy and sell quota. Those billions of dollars enrich foreign governments and foreign manufacturers. Those billions of dollars provide foreign manufacturers with resources which they can invest in even greater and more competitive capacity. Those billions of dollars constitute a drag on the American economy.

To understand the impact of these kinds of quantitative restrictions, we need only look to the impact of the so-called "voluntary" quotas on automobiles from Japan. Those quotas have become so valuable to foreign manufacturers that the Japanese car makers themselves have objected to removing these restraints. A good part of the capital invested in Japanese car manufacturering in the last four years has certainly came from money extracted from American consumers to pay for these quantitative restrictions. The same burden has fallen on the American consumer for over a decade as a result of the existing textile and apparel import restraints.

Second, the current textile and apparel import controls hurt the economy because they reduce the disposable income of consumers. When consumers have disposable income, they spend. When they spend, we buy. When we buy, 70% to 80% of the time we buy domestically. Import controls cause higher prices. Higher prices mean that the American consumer has less income available to spend on consumption or to invest in American companies. By depriving the American consumer of disposable income, import controls hurt domestic manufacturing as well. Here again, the automobile quotas are instructive. It has been estimated that the quantitative restrictions imposed on imported automobiles extracted an additional $2.7 billion from American consumers. Those were consumer dollars not available for the purchase of textiles, apparel, or any other goods. Nor were those dollars available for saving and investment in U.S. manufacturing capacity. The consumer was clearly worse off, while foreign manufacturers themselves were enriched. The textile and apparel restraints have had the same effect. Taken together, textile and apparel quotas and tariffs are now costing American consumers in excess of $23 billion annually according to the same Center for the Study of American Business report I cited earlier.

Third, the import controls hurt our economy because they actually sharpen competition by foreign manufacturers and hurt the industries they are designed to protect. Under the umbrella of quotas, foreign manufacturers trade up in terms of quality, price, and profitability. As they do so, they compete directly with domestic businesses for the high fashion, high style, high quality, and most profitable parts of the textile and apparel business. In short, quotas pull foreign manufacturers into those lines in which domestic manufacturers traditionally have had a competitive edge and a high return. In so doing, import controls actually undermine the competitiveness of domestic manufacturers. Here again, there are lessons to be learned from the import restrictions placed on automobiles. At the time the restraints were put in place, Japanese manufacturers focused mainly on the low- and moderate-priced markets for automobiles. Once the quotas were put in place, these manufacturers focused instead on getting the most income possible out of their quota allocations. They began concentrating on the higher cost, higher priced parts of the market. As a result, that part of the automobile market which had traditionally been most profitable for domestic manufacturers is now the focus of very intense competition. Competition that did not really exist before the automobile quotas were put in place.

The same is true for textiles and apparel. Foreign manufacturers have traditionally entered U.S. markets in competition with textile and apparel goods at the lower price points. These goods require less sophistication in their manufacture and are most susceptible to mass production. Under the increasingly restrictive import controls which have developed in textile and apparel trade, we have seen foreign manufacturers trade up in terms of quality and price in order to obtain the most return from their quota allocation. The result today is that foreign manufacturers compete in most textile and apparel lines. In other words, the tariffs and quotas imposed on textile and apparel merchandise have provided foreign governments and foreign manufacturers with both the capital (from the annual windfall for the quotas themselves) and the incentive to become increasingly competitive with our domestic manufacturers.

Finally, import barriers hurt our economy because they lead inevitably to retaliation against our export industries. Agriculture is the most often cited example. The experience with China in 1981 is instructive. As a result of the U.S. imposition of new barriers to textile and apparel merchandise, the Chinese government cancelled $500 million of wheat sales. Our emerging service industries are at risk as well. As these industries seek to expand into world markets they find resistance from foreign governments that feel their textile and apparel industries are being kept out of American markets. Whether agriculture, services, high tech or basic industry, this nation needs to increase exports in order to achieve greater balance in its trade accounts. Import barriers impede our ability to achieve this important goal.

These four--the annual $4 billion windfall which quotas represent for foreign governments and manufacturers; the tax on consumers which reduces their disposible income; the increased competition which import controls encourage by foreign manufacturers; and the inevitability of retaliation--when taken together, represent a drag on our economy that hurts consumers, producers, and retailers alike. The best interests of all three of these groups will not be served by increasing the burden of import controls. Rather, the reverse is more likely the case. A progressive dismantling of these controls, we believe, would be in the best interest of all parts of the production, distribution, and consumption chain.

This is particularly true for consumers. Consumers are the engine that drive the retail, textile and apparel businesses. The quotas, tariffs and administrative procedures that make up our textile and apparel import control program impose a hidden tax on consumers.
As I explained earlier, quotas alone represent a tax of billions of dollars paid by American consumers to foreign governments and manufacturers. In addition, tariffs on textile and apparel imports cost consumers many more billions. These include both the direct and indirect costs of tariffs. Together these quota and tariff barriers provide an umbrella under which textile and apparel prices rise. The result is an erosion of the consumer's disposable income.

This hidden tax does not fall evenly on all consumers. Import barriers choke off the availability of value-priced merchandise that is absolutely critical to low- and moderate-income consumers who seek every opportunity to stretch their family clothing budgets. Not only do these quotas, tariffs and administrative procedures tax the American consumer, but the tax the consumer in a most regressive way.

In fact, William Cline, in an important study done in 1978, calculated that import controls impose an 11% tax on the average consumer, but a 13% tax on low- and moderate-income consumers. Any effort to increase trade barriers will only increase the burden of this onerous tax on the American consumer and especially the low- and moderate-income consumer.

It is argued by some, especially those from the trade associations representing textile and apparel manufacturers, that retailers use imports to profit at the expense of the consumer. If that were true, 1984 should have been a banner year for retailing. That certainly was not the case. The competitive pressures that are pervasive in our industry took hold in 1984. The year was punctuated, especially during the Christmas season, by price cutting and promotional efforts which forced all of us to lower our profit expectations. In fact, retailing is about as profitable as textile manufacturing and considerably less profitable than apparel manufacturing. America's leading retailers had a return on sales in 1983 of 3.35% compared to 3.33% for textile manufacturers and 5.1% for apparel manufacturers.

Our return on sales reflects the competitiveness of our industry. Neither our market share nor our access to customers is protected by law or regulation. We believe the consumer is best served when retailers are left to compete in as free and open an environment as possible. We compete in acquiring merchandise and in making that merchandise available to the customer. In so doing, we enhance the consumer's purchasing power and, we believe, enhance the economy as a whole.

Let me turn, then, to the proposed textile and apparel Trade Enforcement Act of 1985 HR-1562. As I indicated earlier, we oppose this legislation. We do so because we believe that adding further barriers to the long list of import restrictions that already exist in the textile and apparel area is uncalled for and counter-productive.

The proposed legislation is based on two invalid assumptions and assertions. First, the proposed act assumes that imports have caused disruption in textile and apparel markets and have led to the loss of hundreds of thousands of jobs. Second, the proposed act asserts that increased restrictions would be consistant with the objectives of the Multi-Fiber Arrangement. These assumptions and assertions are incorrect.

It is true that employment in both the apparel and textile manufacturing industries has dropped since 1972 by 13% for apparel manufacturing and 24% for textile producers. However, in both industries there has been no reduction in output. In fact, apparel output, measured in constant 1972 dollars, has increased by 15% since 1972. While textile output has increased by 11%. The major cause for the reduction in employment since 1972 has not been imports. Rather, employment has been reduced because of the significant increases in productivity. These two manufacturing industries are justifiably proud of their record for productivity improvement. In both cases, productivity has risen significantly faster than the national average. In the apparel industry, productivity has increased by 32% in constant dollar terms since 1972. In the textile industry, there has been an even more impressive increase of 45% over this same period of time.

One might ask, then, what explains these significant increases in productivity? The answer is simple and straigt-forward: competition. Competition, whether from other domestic or international sources, challenges an industry to increase productivity. It is through increased productivity that manufacturers are able to lower their unit costs and compete more effectively on both a quality and price basis. That is exactly what has been happening in both the textile and apparel industries. One of the sources of this competitive pressure has been the availability of the imported merchandise. In response to imports, apparel and textile manufacturers have not simply cut production and laid-off employees. Rather, they have invested heavily in improved capacity and the improved productity of their employees. That improved productivity has led to reduced demand for labor. It is the productivity improvement, not the imports, which are the principal source of the reduced employment within both the textile and apparel industries. Hence, to assert that this legislation is necessary because imports have caused unemployment is a faulty premise and a weak basis for this legislation.

The assertion that this legislation is justified in order to meet the objectives of the Multi-Fiber Arrangement is equally invalid. Not only is this proposed legislation inconsistent with the objectives of the MFA, passage of this legislation would constitute a violation of the MFA itself. The MFA was designed as a temporary system of controls which would provide for progressive expansion and liberalization of trade in textiles and apparel. This legislation would make that temporary set of controls permanent, would cause significant roll-backs rather than a liberalization of trade restrictions, and would do so in an inequitable manner. Further, this legislation would violate specific MFA provisions which allow for the liberal treatment of new supplier countries and annual growth rates in quota levels of at least 6%.

Finally and importantly, the proposed legislation would discriminate against developing countries by favoring the European Economic community, the Carribean and Canada. Such discrimination violates the MFA itself, as well as the GATT.

The passage of this legislation would constitute a major departure from long-standing U.S. policy with respect to trade. The legislation would threaten the hope for a new round of trade negotiations. It would also invite significant retaliation, and it would cause a breakdown of the multi-lateral approach to trade policy which has served the world and this country so well for the last 35 years.

Because the assumptions that underlie this proposed legislation are invalid, we believe the legislation itself does not merit consideration. We urge this committee to set this legislation aside. The textile and apparel industries do not need more barriers nor more enforcement of the barriers that already exist. Their interests are best served by continuing the efforts now underway to adjust to the realities of an international economy. Nothing in this proposed legislation will directly assist those manufacturers who find themselves unable to make the necessary adjustments. This legislation will not directly assist those employees who are affected by the industry's continuing efforts to increase productivity. This legislation will not improve access to foreign markets--access which is vital to our fiber and textile exports.

As I indicated at the outset, the health of these industries and the economic well-being of their employees is of importance to the retail community. We are fully prepared to work with the industry, the administration, and the Congress to design solutions to the problems which affect us all. Up to this point, the textile and apparel industries have not sought nor welcomed our involvement in developing a joint solution to these problems. Rather, we have been confronted by proposal after proposal asking for higher barriers at greater and greater cost to our customers. We would welcome the opportunity to work together.

If this committee documents that this industry or its workers do need assistance, you can count on the retail industry to be active participants in designing what we believe would be an effective program. However, you can also count on the retail industry to oppose any efforts, such as those represented by HR-1562 to maintain and increase barriers to international trade which continue to burden our consumers, and our economy as a whole.

Retailers, textile producers, and apparel manufacturers are united in a single effort to meet the changing needs of the American consumer. That partnership has worked successfully since this nation was founded. Building and strengthening that partnership is, and will continue to be, our major goal.

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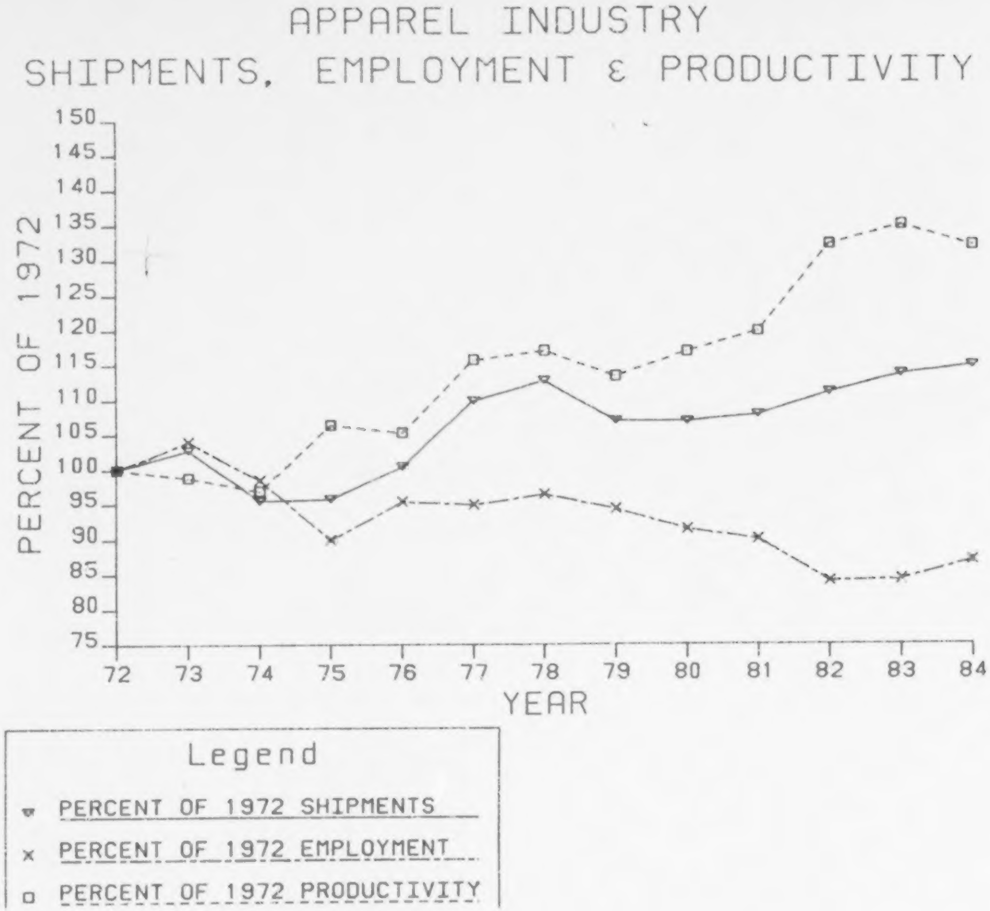
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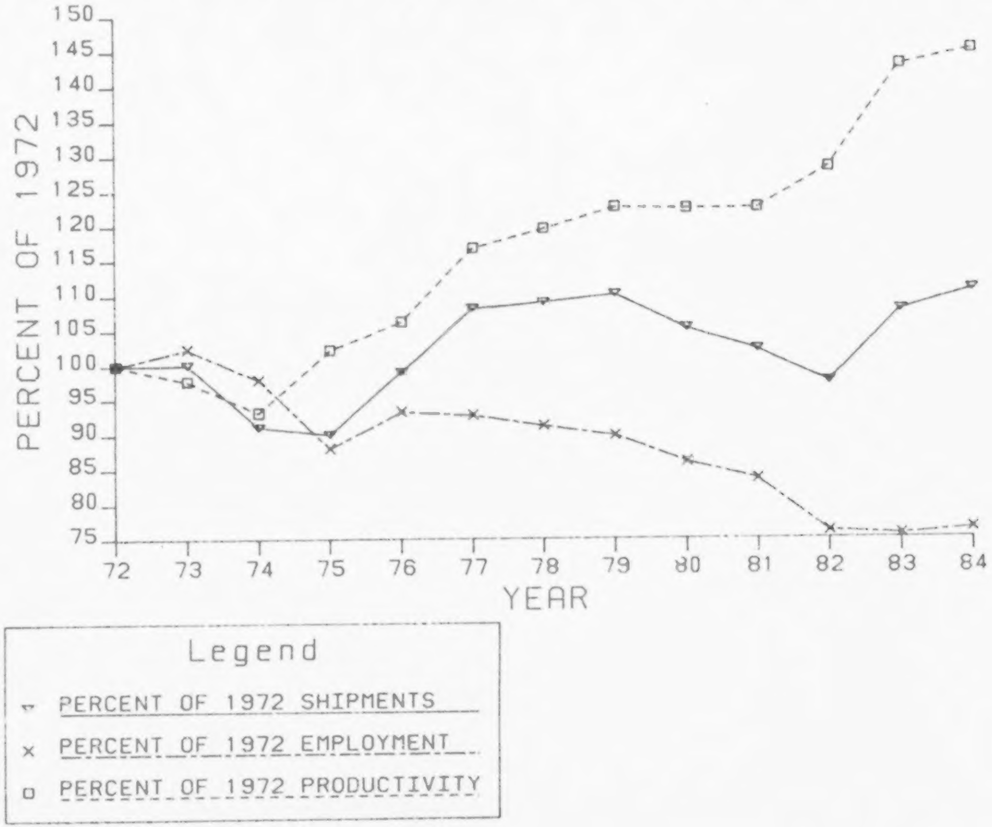


Chairman GIBBONS. Thank you, sir.

Because I have been talking too much, I am going to refrain from asking any questions. Do other members of the panel have questions of Mr. Hutchinson?

Mr. FRENZEL. Mr. Chairman?

Chairman GIBBONS. Yes, sir, Mr. Frenzel.

Mr. FRENZEL. Mr. Chairman, I want to suggest as you did, it is important that Pete Hutchinson be here, and that the people in this room understand, that those who do not race to embrace the Jenkins bill are not necessarily inhuman monsters trying to break down the social fiber of the State of Georgia or any place else.

We have serious—and I am one of them—we have serious concerns about the bill and what it does to the U.S. economic and trade policy, and I would have to say that I guess I am in the front rank of those people.

That is why I am here, and that is why Pete is here, so that we can find out what the situation is here, what possible alternatives there are to be, and I am proud you came here, Pete, and your contribution has been very important for myself and I might say, it is easy for those who support Mr. Jenkins to come down here to Georgia and get applauded.

You ought to think a little bit, too, about people like Pete and myself who come here to gain an understanding, we come here because we respect Ed Jenkins and because we know if he says he has a problem, there is a problem, but even if we don't happen to agree with his particular solution.

Thank you.

Mr. JENKINS. Mr. Chairman, I want to take this opportunity to say to our witness, Mr. Hutchinson: We welcome you to this panel and to the Ninth District. We are a very diversified district. I represent the area from suburban Atlanta to the South Carolina line and the North Carolina line and the Tennessee line.

We have good, hard-working people in the northeast part of the State. I hope that we have treated you well. I am sure that our citizens do that in my district because we have no ill-will to any of those who may disagree with our thinking.

We appreciate the fact that you indicate that your association and your company is willing to try to work with this panel to try to find a way to address the problems that are very deep problems that affect not only the State of Georgia, but indeed, the entire Nation.

It is always difficult for me, very honestly though, as a Member representing 600,000 people who are dependent upon the domestic industry primarily for their livelihood to take the position that, as witnesses have testified, and as you have indicated that you would like to break down the barriers of other countries so that we can trade freely. It is very difficult for me to understand the irrational trade policy that we have in this Nation that says to Brazil or to South Korea or to China, or Taiwan or Costa Rica that they will not purchase any towels, or they will not take any carpet in.

We as a nation have to work with them. We took all their products at a staggering 32-percent rate of increase last year in this particular industry, 25 percent the year before. My difficulty is that we ought to be as tough with those nations as we expect them to be with us.

We ask nothing more because I fear that if we don't take some action in the direction of the bill that I introduced or in some similar fashion to enforce the trade laws to make them truly workable, that while we may worry about MX missiles, it won't be too long before the only thing that we will produce in this country to make that MX missile will be the hole in the ground to place it in. I don't want to see us come to that place in this country.

Chairman GIBBONS. Yes, sir, Mr. Hutchinson; and then Mr. Pease.

Mr. HUTCHINSON. Mr. Chairman, I wanted Mr. Jenkins to know that the people in Georgia have treated me exceptionally well, and as you may be aware, I travel a bit, and I can't remember being in a more beautiful setting, and I am planning to bring my family back here, and I know my family will be appreciative of the beauty that is here.

It is a question of toughness and leniency. I think one of the considerations that we must recognize as we think through our international trade posture, is that, through legislation or through a treaty, sanction the idea of trade barriers, whether here or abroad, we are in effect inviting the kind of situation we have with Japan or with Brazil.

We must all remember that through the MFA and other international treaties, we have guaranteed market share to countries with respect to our market. They are not going to want to give that up, and there is no environment in which they should want to give that up.

Quite frankly, as I look at the world scene for textiles and apparel, the thing that bothers the Brazilians and the Indonesians and the Filipinos and the Taiwanese more than anything else is not the existence of the MFA, it is the possible abolition of the MFA. Why would they be afraid of that? Because they expect that the Chinese would "eat their lunch" if they are allowed to compete freely for any market in the world.

Right now, we have a system that guarantees market share in all countries. There is no competition anywhere in the world because of the barrier we have supported. I think you might want to think, and it is tough to do this, because the world is a very complex field in which to play, that when we put all of these countries in this position where they are guaranteed success, they are going to hold on as tenaciously as they possibly can to keep it.

In our industry, no one is guaranteed success. We would just as soon have the whole market operate on that basis including Taiwan, China, and Indonesia, and all other countries. They are not in that position today. So when I speak about breaking export barriers, it is not just ours, it is everybody's, that we are talking about.

Mr. PEASE. Mr. Chairman, thank you very much. I, too, would like to compliment Mr. Hutchinson for coming to the Carolinas and Georgia and this part of the country. We are not too far from North Carolina, where they talk about the Tarheels. In this district, chicken feathers are big products. I think you are a great man for having shown up.

Mr. Hutchinson, I think that you are, in effect, saying that retailers like yourself and producers like those in this room have common ground in seeking access for our exports to Taiwan and Korea and Brazil and elsewhere, but I think there may be again a difference.

It is true that while it is good for us to seek access, that access does not exist. We have been trying very hard, very vigorously in those countries, and they have resisted a great deal, so the actuality is that we are not able to get our goods into those countries as we have heard in testimony today.

In the meantime, textiles are coming into this country from overseas at an increasing rate of 25 percent a year, 32 percent a year, 20 percent a year and so forth. At that rate, we will have very little industry left.

I guess my question is what can we do to get those countries to accept our exports, and do we have a right to expect performance from them and require that until they perform, we are going to restrict their imports? Could you comment on that, please?

Mr. **HUTCHINSON**. I would just say two things. One, the reason that those countries are able to be in that position is because this country sanctions the existence of import barriers per se.

Those are import barriers, we call them export barriers but they are import barriers in these countries. We sanction the existence of those barriers and I frankly think we should not continue to sanction the existence of those barriers.

I think in industry, we know the basic rules of international trade. I feel very strongly that we should not sanction the continuation of import/export barriers. However, we should not be the first to back out, if that is the question you are asking. Should we back away from that? No, I don't believe we should.

Second, I would urge you to consider getting those countries to compete with one another. I think, again, it is not just that they tend to beat our textiles out, they beat everybody's textiles out.

It is not what we have been singled out, they have decided to keep out the entire world. I think there may be a very important argument for us with our trading partners around the world to eliminate those kind of barriers collectively and to put the pressure on these countries to eliminate those kinds of barriers.

We are not the only ones that need to work on this issue. That is the point I am trying to make. I think we may need more partners out there in this process than we have sought out in the past. I think we need an opportunity to make some of these points with our trading partners. I hope this committee and the administration will try to do that.

Mr. **PEASE**. Mr. Chairman, in the interest of time, I will pass further comment.

Chairman **GIBBONS**. Yes, sir.

Mr. **ANTHONY**. Mr. Chairman, I am going to yield my time to Mr. Fowler.

Mr. **FOWLER**. What kind of pressure are you advocating?

Mr. **HUTCHINSON**. I think that at a minimum, we should sit down with especially our European allies and discuss with them seriously us joining together to put pressure on those countries.

Mr. **FOWLER**. What kind of pressure?

Mr. HUTCHINSON. With respect to the reinvocation of limits under the MFA. We should not accept higher limits under the MFA.

Mr. FOWLER. Since the markets are open and you are able to import goods, these cheaper goods from all over the world at present, why are you laying off workers from your stores?

Mr. HUTCHINSON. How come we are laying off?

Mr. FOWLER. Yes.

Mr. HUTCHINSON. Because we end up with stores located where people have left. We end up with stores not competitive with stores down the street. It is the nature of our business, we had to have—for over 120 years, a store in downtown Detroit. We kept that store open as long as we possibly could, but it got to the point where people weren't living in the area. It was a dismal process having to close that store.

Mr. FOWLER. To put it another way, is there any doubt in your mind that if some strong affirmative action were undertaken, as you suggested earlier in your testimony—we may differ on the means—to get back our market share in this country, and we lose substantially more of the textile industry in this country, such as a loss of most of or, even worse, all the industry's production capacity, is there any doubt in your mind that that blouse you are now paying $5 for now from Hong Kong would be $25 next year or something four or five times that once our domestic operations have closed.

Mr. HUTCHINSON. The answer would depend on two things.

First of all, there is nothing that I have seen to suggest that production in the American textile and apparel industry has gone down. In fact, in the last 10 years, production in this industry has gone up by 15 percent.

What has happened in the textile and apparel industry is that employment has gone down. I don't deny that fact. Employment has gone down largely because this industry has invested so significantly in productivity. I don't believe the textile and apparel industry in this country is going to disappear. We buy 80 percent of everything we buy from America textile and apparel manufacturers. We don't think that is going to change.

Second, the price of that blouse is going to go up or down to the extent that we guarantee market access to these domestic suppliers. If we tell Hong Kong that they are always going to get 25 percent, 10 percent, or 5 percent of the American market, you bet they are going to try to raise their prices.

They know they have got 5 percent. They don't even have to work at it to get the 5 percent. We would like to see them competing, we would like to see real world competition going on in terms of the textile production. And we think that this industry in this country and those industries will continue to compete with one another effectively.

Mr. FOWLER. I yield to my colleague from Georgia.

Mr. JENKINS. The only point I want to make, when you say the production in the apparel industry has grown in the last 15 years——

Mr. HUTCHINSON. 10 or 15 years.

Mr. JENKINS. By what percentage?

Mr. HUTCHINSON. By 15 percent.

Mr. JENKINS. What you are looking at, of course, is with all the growth in the population during that time, you are talking about a growth of 1 percent a year.

Mr. HUTCHINSON. 1.5 percent a year.

Mr. JENKINS. How much in comparison has retail sales grown?

Mr. HUTCHINSON. Retail sales have grown at about the same rate as the population, well, slightly larger than that.

Mr. JENKINS. When you are talking about maintaining the same size, you are looking at a 15-year period when we have been just stable with the market population and with really no growth, which it is really going backwards?

Mr. HUTCHINSON. On a real dollar basis, there has been growth. Right, it has been 15 percent. But the only point I want to make, and because I think we can and we ought to take cognizance of the fact, is how quickly this industry can continue to increase over time.

Mr. JENKINS. I want to point out to you that, of course, it doesn't take any more labor to sell domestic products than it does for imported products. It takes the same number of retail clerks to sell a domestic product as it does an imported product, I would assume.

So the employment wouldn't be any different. You mentioned about the return, the percentage profit, but what you are looking at is margin. You are looking at the percentage on sales, and if you look at a true figure, a more accurate figure, it would be return on investment.

Return on investment in the retail field is 15 percent or thereabouts, return on investment for the textile and apparel industry is less than 5 percent, return on investment. That is a more accurate figure to look at, I think, in making comparisons between retail and the industry itself.

Thank you. That is all the questions I have right now.

Chairman GIBBONS. All right, I want to thank you, Mr. Hutchinson, for coming.

We are supposed to be on the bus at 12 noon to go to the Harmony Grove Mill. We have got 1 hour's worth of testimony left here, and we have only got 20 minutes to do it in. Now, I don't want everybody to talk at one time, but obviously, I have got to do less talking, and I am going to start right now.

Mr. Charles Whalen, who is the moderator of the next panel. Mr. John Robinson, Southern Waistbands, is on the panel. Mr. Coy Glenn, Glenn's All-American Sportswear. Mr. John Wilkins, Wilkins Industries, and Mr. Ted Horsley.

Mr. WHALEN. Mr. Horsley won't be here.

Chairman GIBBONS. All right.

Mr. Whalen.

STATEMENT OF CHARLES E. WHALEN, JR., PRESIDENT, WARREN FEATHERBONE CO.

Mr. WHALEN. Thank you, Mr. Chairman. My name is Charles E. Whalen, Jr. I am president of the Warren Featherbone Co. in Gainesville, GA. I don't want to be confused with dealing in chicken feathers, I assure the members of the committee I am in the apparel business.

I would like for each of my fellow panelists to introduce themselves, but before they do, I want to tell you that Ted Horsley was called out of town quite unexpectedly yesterday.

Chairman Gibbons. We recognize that. If he has a statement, we will put it in the record as if he was here.

Mr. Whalen. So if the panel would——

STATEMENT OF JOHN W. ROBINSON, JR., PRESIDENT, SOUTHERN WAISTBANDS

Mr. Robinson. Mr. Chairman, I am John Robinson, Jr., primarily a supplier to the apparel industry. I am president of Southern Waistbands, and manufacturer of interlining for men's trousers and women's sportswear and I operate a sales agency in the Southeast for Thread USA, one of the largest integrated industrial thread suppliers.

Chairman Gibbons. Mr. Robinson, if you could get just a little closer to the microphone.

Mr. Robinson. Thank you, sir.

In addition, I am involved in community banking, and I serve as 10th Congressional District board member on the board of natural resources, which sets policies for the environmental protection division, which in the State of Georgia it has one stop permitting for new industry coming into the State.

STATEMENT OF JOHN J. WILKINS III, PRESIDENT, WILKINS INDUSTRIES

Mr. Wilkins. I am John Wilkins from Athens, GA, and president of Wilkins Industries, and we have plants in Jefferson and Athens. We produce women's sportswear and have been in business since 1909.

We sell to a diversified group of stores. We sell private brands to some of the national chains and to competitive stores. We sell a branded product in specialty stores and department stores.

We have been severely impacted, and when I say "we," our company and our employees. Our company will survive. The people that are not going to survive are the unemployed. They are the severely impacted.

They are primarily women, middle-aged, most of them live in the rural areas. They are working because they are trying to survive, they are trying to educate their children, and retire.

They don't have the education to go up the stream to high technology. They don't have the mobility to move on to another town. Most of them have roots in the small rural areas, they have got a small farm, living really on the edge of society.

Another comment I would like to make, I have seen time and time again, the national specialties, the big stores go outside the country and they might buy a pair of blue jeans from the East for $10, or from Hong Kong for $7.50, but they don't differentiate in retail always, they don't always differentiate in retail, the cost savings that they pick up enables them to make a little profit.

I got a telegram back in the late sixties from the Government telling me that Monday morning, I should go to Fort McPherson to pick up cloth and start making uniforms. I was a civilian, I was in business, but they said, "You are going to work for the Government." We met that obligation and it wasn't easy.

You won't have that opportunity to get uniforms from Hong Kong or wherever. You have got to have—you have got to keep some domestic production in apparel. We are not asking for total outright protection.

What we are asking for is an orderly market, and it is there by agreement in some categories. We are asking to have some form of a police force to try to keep from finding out that there are just a few boatloads of clothing sitting in the Los Angeles Harbor waiting for the next freight train. This just totally disruptive.

Thank you.

STATEMENT OF COY F. GLENN, GLENN'S ALL-AMERICAN SPORTSWEAR

Mr. **Glenn**. Mr. Chairman, my name is Coy Glenn. I am president and sole owner of Glenn's All-American Sportswear. We are manufacturers of dress and casual slacks and pants. We service the direct mail order houses as well as the major discounts.

We have central cutting and finishing operations servicing nine sewing plants located in four Alabama and five Mississippi towns, with a total employment of 2,250 people.

We are the only industry that is located in five of these towns. In the event that something does happen to us, the entire population of these towns will be without gainful employment in a productive way.

We have been an equal opportunity employer since the early sixties.

We are being hard pressed today, even though we are working 40 hours, and we expect to do so as long as there are any pants made on these shores, we are going to make part of them, but we are really hard pressed today to keep our plants going full time, and many of our neighbors are on short time or have closed down their plants.

We have been seriously concerned about these small towns, we are concerned about the people who live there, because we grew up there.

More than that, we are concerned about the marketplace. It doesn't matter how well we are doing our job, if we lose our position in the marketplace, our services will go for naught. Thank you, Mr. Chairman.

Chairman **Gibbons**. Thank you.

Mr. **Whalen**. Mr. Chairman, the Warren Featherbone Co., is 102 years old. That is pretty interesting in and of itself, at a time when the average age of business in the United States is 6 years. We employ 450 people in Gainesville, which makes us one of the largest employers in our area.

My company is in a rather unique situation. We produce infants' wear, for very tiny children, and that particular market segment has not been severely impacted, at least for our company.

I am a member of the board of directors of the American Apparel Manufacturers Association, and I am aware of what the imports are doing to this industry in the United States, but more importantly, I am aware of what imports are doing to the manufacturers in Georgia.

At the outset, let me say that we, too, support the passage of H.R. 1562. We feel that this bill is appropriate for three reasons.

First, the textile and apparel industry is unique because of its large employment and high import sensitivity. Second, the industry is highly competitive, efficient, and it is getting better, and third, the bill is fair. The multifiber arrangement obviously is not working, and this bill simply translates its intent into law.

The apparel industry, despite its problems, remains a viable one, making a major contribution to the American economy. The industry pays about $16 billion in wages—we are talking about the apparel industry nationally—and employs about 1.2 million people.

In the five Southeastern States of North and South Carolina, Tennessee, Alabama and Georgia, we employ 310,000 people and pay wages of more than $2.8 billion. In Georgia, we employ 72,000 people and have a payroll of $663 million.

It has been said earlier when you combine our employment with textiles, this represents one out of every three jobs in the State.

Right here in the Ninth Congressional District of Georgia, there are more than 10,600 garment workers with annual earnings of $98 million a year.

Our plants and our workers, for the most part, are in small towns and this point has been touched on before, where there are few other employment opportunities and where displaced workers seldom have the option of moving to places of greater opportunity.

Eighty percent of our work force is female, and our industry is the largest employer of women in the United States. The average apparel plant, and I think this is very interesting to realize, there are 15,000 apparel companies in the United States, the average company employs fewer than 75 people.

We believe that the U.S. apparel industry is the most automated and efficient in the world, and is continuing to improve.

For instance, in 1970, the production of a suit jacket that we are all wearing required 130 minutes of labor. Today, it requires just 85 minutes of labor, a productivity increase of 35 percent.

In the last 10 years, the apparel industry has improved productivity at an annual rate of 3.4 percent, nearly double the 1.9-percent average for all manufacturing.

We are continuing to modernize. For instance, a joint government-labor-industry project being conducted at the Charles Draper Laboratories in Cambridge, MA, holds great promise in the area of robotics and material movement, and this was also mentioned by our last speaker.

Despite this large economic contribution by our industry and its sincere efforts to keep ahead of available technology, the industry's existence is threatened today by the influx of apparel imported from low-wage countries around the world.

Apparel imports in 1984 amounted to 4,722 million square yards-equivalent. Now, in English, we can understand, what that means is that during 1984, we brought into the United States from abroad about a dozen garments for every man, woman and child, so the impact of imports is very significant in this economy.

Market penetration by imported apparel has doubled since the birth of the multifiber arrangement which was supposed to bring order to our marketplace. In 1973, the first year of the MFA, imports accounted for 22 percent of outerwear and in 1984, imports accounted for 39 percent of those garments—from 22 to 39 percent growth.

The fiber/textile/apparel industry accounts for 6.5 percent of our gross national product in manufacturing. Yet last year, the trade deficit in our product was $16 billion or 13 percent of the total deficit. In other words, we are absorbing imports at a rate that is double our share of the economy would indicate.

Very importantly, I think, and certainly a key issue here, we feel the imports are the overwhelming reason why 274,000 garment workers have lost their job since the MFA was created. This represents 19 percent of the apparel total work force in 1973.

We believe it is apparent that the MFA simply has not worked. The bilateral agreements negotiated under it are not comprehensive, either in product coverage or country coverage. The MFA does not provide coverage for new fibers which have entered our market in large volume in recent years and, finally, the MFA does not work because it has been inadequately administered.

The failure of the MFA is what prompts our support of the Textile and Apparel Trade Enforcement Act of 1985. Mr. Chairman, the chart I have displayed to my right shows vividly what has happened since 1980 and what should have happened if the intent of the MFA had been enforced. The red bars show the actual growth of imports. The blue bars show what that growth would have been if imports had grown at the rate specified by the MFA.

Chairman GIBBONS. Was that with your statement, that chart, or could we get a copy of it?

Mr. WHALEN. Yes; it is not in the statement, but we can get it for you.

Chairman GIBBONS. Would you supply a copy of it for the record?

Mr. WHALEN. Yes, sir.

[The following was subsequently received:]

AMERICAN APPAREL MANUFACTURERS ASSOCIATION

April 16, 1985

Chairman Sam Gibbons
Committee on Ways and Means
Trade Subcommittee
1111 Longworth House Office Building
Washington, DC 20515

Dear Chairman Gibbons:

At your recent hearing in Helen, Georgia, you asked the apparel panel to supply for the record a copy of its chart measuring import growth since 1980 and comparing it to what it would have been if the intent of the Multifiber Arrangement had been enforced. Please find attached a copy of the chart which we hope will be made part of the hearing record.

Mr. Chairman, we very much appreciate your interest in our industry and your willingness to spend the time and effort to explore solutions to our import problem.

Sincerely,

Larry K. Martin

LKM/cam
Attachment

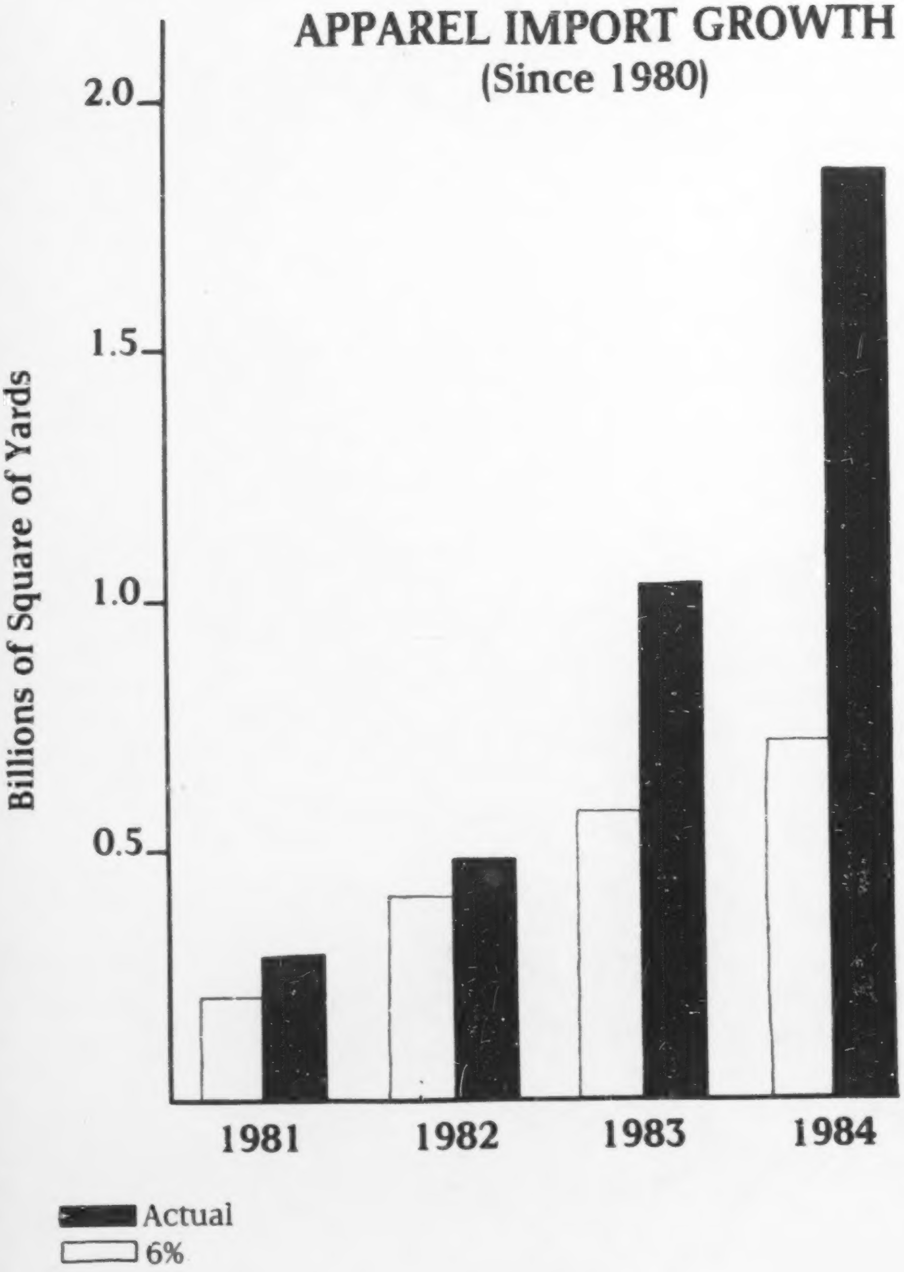
1611 North Kent Street/ Suite 800/ Arlington, Virginia 22209 703/524-1864

BAMA DIVISION
240 Madison Avenue
New York, NY 10016
212/686-3440

NOSA DIVISION
240 Madison Avenue
New York, NY 10016
212/686-3440

SAMA DIVISION
P.O. Box 585931
Dallas, TX 75258
214/631-0622

WESTERN DIVISION
P.O. Box 2291
Los Angeles, CA 90051
213/624-8929



APPAREL IMPORT GROWTH
(Since 1980)

Mr. WHALEN. This bill reduces the influence of the major low-wage supplying countries and allows the smaller sources to grow at a faster rate. It provides for orderly future growth in our market and it provides American Apparel manufacturers a reasonable share of its own marketplace.

Mr. Chairman, we earnestly hope that your subcommittee will favorably report this bill. We want to thank you for allowing us to appear before you and I personally want to thank you for the obvious energies you are putting into researching this issue. I am impressed by that, and I am proud to be a part of the process, as is everyone here today.

We will be happy to try to answer questions you might have.

[The prepared statement follows:]

STATEMENT OF CHARLES E. WHALEN, JR., PRESIDENT, WARREN FEATHERBONE CO.

Thank you, Mr. Chairman. My name is Charles E. Whalen Jr. I am President of the Warren Featherbone Company in Gainesville, Georgia. I would like for each of my fellow panelists to introduce himself.

Mr. Chairman, the Warren Featherbone Company is 102 years old. We employ 450 people in Gainesville which makes us one of the largest employers in the community. My company is in a rather unique situation. We produce garments for the smallest of infants, a line of apparel that has not yet been severely impacted by imports. However, I am a member of the Board of Directors of the American Apparel Manufacturers Association and I know what imports are doing to the rest of the industry. More importantly, I am aware of what imports are doing to the apparel industry in Georgia.

At the outset let me say that we support the passage of H.R. 1562, the Textile and Apparel Trade Enforcement Act of 1985. We extend our appreciation to Congressman Jenkins and the other members of this Subcommittee who are sponsors of the measure.

We feel this bill is appropriate for three reasons. First, the textile-apparel industry is unique because of its large employment and high import sensitivity. Second, the industry is highly competitive, efficient and improving. And third, the bill is fair. The Multifiber Arrangement obviously is not working and this bill translates its intent into law.

The apparel industry, despite its problems, remains a viable one, making a major contribution to the American economy. The industry pays about $16 billion in wages nationally and employs 1.2 million people. In the five southeastern states of North and South Carolina, Tennessee, Alabama and Georgia, we employ 310,000 people and pay wages of more than $2.8 billion. In Georgia we employ 72,000 people and have a payroll of $663 million. Combined with textiles this represents one out of every three in manufacturing. Right here in the 9th Congressional District of Georgia there are 10,600 garment workers who earn more than $98 million a year.

Our plants and our workers, for the most part, are in small towns where there are few other employment opportunities and where displaced workers seldom have the option of moving to places of greater opportunity. Eighty percent of our work force is female. Our industry is the largest employer of women in the United States. The average apparel plant in the United States employs fewer than 75 people.

The apparel industry remains one of the most competitive industries in the United States. There are 15,000 apparel manufacturers competing with each other—as well as with offshore producers—for a market that is growing very little if at all.

We believe the U.S. apparel industry is the most automated and efficient in the world, and is continuing to improve. For instance, in 1970 the production of a suit jacket required 130 minutes of labor. By 1982, that labor content had been reduced to 85 minutes, a productivity increase of 35 percent. In the last 10 years the apparel industry has improved productivity at an annual rate of 3.4 percent, nearly double the 1.9 percent average for all manufacturing. We are continuing to modernize. For instance, a joint government/labor/industry project being conducted at the Charles Draper Laboratories in Cambridge, Mass., holds great promise in the area of robotics and material movement.

Despite this large economic contribution by our industry and its sincere efforts to keep ahead of available technology, the industry's existence is threatened today by the influx of apparel imported from low-wage countries around the world.

Apparel imports in 1984 amounted to 4 billion 722 million square yards equivalent. This was an increase of 21 percent from the previous record high set the year before. Since 1980, apparel imports have increased 64 percent.

Market penetration by imported apparel has doubled since the birth of the Multifiber Arrangement which was supposed to bring order to our market place. In 1973, the first year of the MFA, imports accounted for 22 percent of outerwear garments purchased by American consumers. In 1984, imports accounted for 39 percent of those garments.

The fiber/textile/apparel industry accounts for 6.5 percent of our gross national product in manufacturing. Yet last year the trade deficit in our products was $16 billion or 13 percent of the total deficit. In other words, we are absorbing imports at double the rate our share of the economy would indicate.

Imports are the overwhelming reason why 274,000 garment workers have lost their jobs since the MFA was created. This represents 19 percent of the apparel workforce in 1973.

We believe it is apparent that the MFA simply has not worked. The bilateral agreements negotiated under it are not comprehensive, either in product coverage or country coverage. The MFA does not provide coverage for new fibers which have entered our market in large volume in recent years. And finally, the MFA does not work because it has been inadequately administered.

The failure of the MFA is what prompts our support of the Textile and Apparel Trade Enforcement Act of 1985. This bill takes the intent of the MFA and writes it into American law. It places the 1985 level of imports where it should have been if the intent of the MFA had been enforced the last five years.

Mr. Chairman, the chart on display here demonstrates vividly what has happened since 1980 and what should have happened if the intent of the MFA had been enforced. The red bars show the actual growth of imports. The blue bars show what that growth would have been if imports had grown at 6 percent a year.

This bill reduces the influence of the major low-wage supplying countries and allows the smaller sources to grow at a faster rate. It provides for orderly future growth in our market. And it provides American apparel manufacturers a reasonable share of our own marketplace.

Mr. Chairman, we earnestly hope that your Subcommittee will favorably report this bill in the very near future. We want to thank you for bringing your Subcommittee here today and for the opportunity to appear before you. We would be pleased to answer any questions you may have.

Chairman **Gibbons**. I really just have one question for you. What article of clothing were you talking about, 130 minutes versus 85?

Mr. **Whalen**. A man's suit coat.

Chairman **Gibbons**. A suit jacket, like this one I am wearing?

Mr. **Whalen**. Right.

Chairman **Gibbons**. That is needed in the assembly process, 85 minutes of assembly time.

Mr. **Whalen**. Production time.

Chairman **Gibbons**. What period of time did you gauge that activity in? What spread of time?

Mr. **Whalen**. I believe about—well, let me check. Between 1970 and today.

Chairman **Gibbons**. It sure is odd that prices have gone up so much, isn't it?

Mr. Schulze.

Mr. **Schulze**. Thank you, Mr. Chairman. I know in the interest of time, you may not want to answer this question fully, and I am not going to ask the other panels appearing before us; in light of the experience with MFA, if you were going to use the knowledge you have over the past decade and you were going to draw up an MFA as we did 10 years ago or 12 years ago, what would you do differently? Would you base quotas for imports on world production or would you base it on world consumption, prior consumption? Would you put more meat in the instructions so that it could be enforced better?

As I say, it may not be a question you can answer at this time, but we would appreciate having it in writing and from the other panels as well, your thoughts on that, because we are going to go through that process. In effect, that is what Mr. Jenkins' bill does. So very often we go off and respond to the urgency of the moment when what we really should do is look at the past decade of experience and see how should we do it right now. How should we do it differently? If you have an answer, we will take it now, but we would also like to have it in writing.

Mr. WILKINS. I think personally if we had hindsight, and were playing a game, that we should decide how much of the domestic apparel textile market we want to let come into this country, this is what we are going to give the world so we can trade with it. Then I think the second thing we need to do is we should tie the growth of that market to our——

Mr. SCHULZE. What percentage do you think, you tell me, 20, 30, 50, 60, 10?

Mr. WILKINS. I might get lynched from the back of the room. Forty percent.

Mr. SCHULZE. Forty percent. Go ahead.

Mr. WILKINS. I think to tie that growth, I would keep that 40 percent of the market instead of being 40 percent plus 6 percent, plus 60 percent, plus 50 percent. If we are growing 1 percent, why should we give away 6 percent.

The next thing we should have done is set up two policing actions. One, to say the administration has to enforce the agreement as a matter of law. The next order of policing should be we should have a policeman with a stoplight at our border that says, OK, your share of the market, this is where you are, you applied for Brazil for 90 percent of your quota, the next 10 percent gets here and there is no more from Brazil that year.

That let's this country operate and know what the boundaries are. We have got to do some scheduling, we have got to police our imports.

Mr. SCHULZE. Thank you very much.

Chairman GIBBONS. Thank you. I thank the panel very much and I enjoyed getting to meet all of you last night and look forward to seeing you again sometime soon.

Mr. ROBINSON. Mr. Chairman.

Chairman GIBBONS. John.

Mr. ROBINSON. Mr. Chairman, if I could, I would like to address the question of the deindustrialization of our country.

Chairman GIBBONS. You go right ahead.

Mr. ROBINSON. I live in a very unusual position, in that I sell for one of the large integrated mills, and I see that the mills in this country evolved in an almost emotional struggle over market share, without any direct relationship to cost, and that can only end in disaster, a financial disaster.

At the same time, I see the apparel cutter in the Southeastern United States basically being a service industry. We are in a cut and sew area. Not many of our manufacturers are merchandisers of a finished product, so in a service based economy, we have been foreruners and not laggards in that trend.

So much of our apparel industry has sought with an equilibrium in labor markets that no one else would touch. Our apparel factories in many cases are located in small communities that you have to call the common carriers to get them to come in there. I see the frustration of our State management and State elected officials as they deal with economic development problems. The new high technology and service industries looking at the area, look at recreation, education, and whether the location is an hour and a half from the Atlanta airport.

What I see going on here is absolutely the most destructive set of circumstances that you can propose in the Southeastern United States. As a community banker I see that slow steady economic momentum from the new payrolls coming in, but at the same time I see the instantaneous reaction to the rumor of the plant going on short time. I can't go to the service station in my small community without someone asking me how is work?

We supply over 300 people throughout the Southeastern United States and because of that vast contact, I am exposed to an awful lot of job request. Starting last October, about the last weekend in October, I did not have a weekend that I have enjoyed with the exception of Christmas because close friends of mine have called and said, "John, I have been let go."

Now, I characterize those people as motivated, self-respecting, hard-working, mill managers who have been cut back in a situation which is out of their control. There is something that has got to be done. For about 2 weeks I knew where to tell those people to go. During November—well, I guess about the third week in November, I was in conversation with one of these close friends and I started giving him false hope. He was wanting me to tell him where to go and halfway through that conversation I thought I have never lied to a friend. And all of a sudden I stopped and I told him, I said I don't know what to tell you to do, but I will tell you I am going to put you on my prayer list, and that is the strongest thing that a Baptist deacon can say to anybody. This thing has gone far enough and we are looking to you folks. We appreciate you coming down here and giving us that which is most dear to you and that is your time.

The American people do not want to see the blue collar worker sail down the river. We have worked with these people. We have learned our industrial work habits together. We want to survive and succeed together. We need your help. [Applause.]

Mr. **Pease**. Mr. Chairman, I would just like to thank Mr. Robinson for his very eloquent statement. We are often told that the answer to unemployment is to move. I think the President once said that folks in need can move to different parts of the country.

I understand the unemployment rate in the Boston area is about 3 percent, and perhaps it would be fairly easy to find a job there, and I think that we on the Committee, in Congress and in the Nation, need to think about the practicality of asking the laid off textile worker in Calhoun or Gainesville, GA, to uproot his or her family and move to Boston to look for a job. As a consequence in terms of our social background, we won't be able to obtain that job.

Mr. **Robinson**. If I could address that just a second. Our labor market is very unique. We came from an agrarian society and because of that, many of our employees who still live on that family farm which was subdivided between the four children in the family, he now lives on 30 acres. They are small business people. They have chicken houses in back yards. They have garages where they work on cars at night. These people are not as mobile as you would find in our urban areas.

Chairman GIBBONS. Thank you very much, and I want to thank all of the panel for coming. We have got another panel waiting. I am going to turn the meeting over to Mr. Jenkins now, and take care of some administrative matters. But I want to ask all of the members to please try to be on the bus no later than 12:20. And I would remind the members that there are facilities on the bus in case any of you need them. [Laughter.]

Thank you very much, Mr. Jenkins.

Mr. JENKINS. Our next panel of witnesses are Bob Webster and Frank Horn. Mr. Horn is director of marketing research for the Monsanto Corp. Mr. Webster is executive vice president of Southern Cotton Growers, Inc. We are delighted to have this panel with us and since we are running short of time, I want to remind you that your entire written statement will be made a part of the record. And if you could just briefly summarize your statments, we would appreciate that.

Mr. HORN. Should I go first?

Mr. JENKINS. Yes.

STATEMENT OF FRANK J. HORN, DIRECTOR OF MARKETING RESEARCH, MONSANTO FIBERS & INTERMEDIATES CO.

Mr. HORN. Good morning. My name is Frank Horn, and I am director of marketing research for Monsanto Fibers & Intermediates Co. I appreciate this opportunity to appear before you today to bring to the committee the viewpoint on Monsanto and the entire U.S. manmade fiber industry on this very critical impact of imports on this important industrial sector, and on the ways in which major exporting countries circumvent existing laws aimed to prevent market disruption. I am, of course, referring to the multifiber arrangement and the wide element of agreements negotiated under that umbrella.

Monsanto Fibers & Intermediates Co. is the third largest manmade fiber producer in the United States with 1984 sales of $1.2 billion and approximately 10,000 employees. Monsanto currently produces acrylic, mod-acrylic and nylon fiber products for apparel, home furnishings, and industrial market segments.

Further, Monsanto is a member company of the Man-Made Fiber Producer Association, a group of 15 companies which produce over 90 percent of all the manmade fibers produced in the United States today. This sector employs 75,000 people in 30 States and produces about 8 billion pounds of fiber each year. Manmade fibers account for nearly 75 percent of domestic mill fiber consumption.

My intention is to concentrate on the severe impact of one product situation of great importance to Monsanto as a company and the industry in generally, namely acrylic fiber and the major end product sweaters.

This situation, however, is representative of dozens if not hundreds of apparel product situations in which Far Eastern countries have specifically targeted key U.S. apparel markets through building integrated manufacturing systems, starting at one end with fiber production and shipping an end product, such as sweaters, to the United States for the retail distribution.

As a little background, over the past 10 years, final consumption of acrylic fiber in the United States has shown no growth. there was a cyclical peak of 756 million pounds in 1977, but since then, volume has steadily declined to 60 million pounds in 1984, approximately the same volume as 1974.

During the 10-year period, imports share of the market increased steadily from 17 to 29 percent. About 72 percent of acryclic imports come into the county in the form of sweaters. During that same 10-year period, acrylic fiber producing capacity in the Far East has grown from 885 million pounds to 1.73 billion pounds per year, an increase of 95 percent. Meanwhile, the U.S. capacity has declined from a peak of 870 million pounds to approximately 700 million pounds, a decline of 19 percent.

All major U.S. acrylic fiber producers have shared in this capacity reduction including Monsanto who just recently announced a significant capacity reduction involving the loss of 650 jobs. The capacity closed in the United States was fully competitive in an economic and quality sense, with entrants made in the world.

Also, in the 10-year period, the Far Eastern capacity utilization rate in producing fiber for their intended world market has averaged an outstanding 92 percent. In contrast, U.S. capacity in producing for their intended domestic market has averaged an unacceptable 62 percent, a rate well below that which would permit break-even economics. Indeed, over the past 5 years, that utilization rate has declined further to the 56 percent level, as import penetration has increased.

We would note that in the last 5 years Far Eastern producers continued to expand their total fiber capacity by about 20 percent, in spite of the well documented downward trend in their key export market.

A few comments on sweaters. Sweaters, in particular those made with acrylic fiber, were one of the first targets for Far Eastern exporting countries, especially the big four of Taiwan, Hong Kong, South Korea and lately the Peoples Republic China.

There are several key reasons for this. First, sweaters of good quality are relatively easy to make in that fewer and less demanding manufacturing steps are required, as compared, for example, with a shirt; and fabric finishing requirements are far less stringent.

Second, fit of finished garment is not nearly so critical as in cut and sew items, such as a shirt or a pair of trousers. Importantly, sweaters are raw material-intensive, not labor-intensive like many apparel items. Thus, while sweaters are an optimum first product for a developing country, a reliable source of supply of raw material is mandatory.

In the case of sweaters, the fiber raw material for the mass market has been and will be acrylic fiber. Thus, the targeting of the U.S. sweater market by the big four typically was marked by the construction of acrylic fiber plants linked to downstream operations including sweater assembly.

Because by the early 1970's imported manmade sweaters, essentially all of acrylic fiber, had come to dominate the U.S. market with a share greater than 50 percent, manmade fiber sweaters became recognized as an import-sensitive item which warranted strict quota control.

The current bilateral agreements with the Big Four suppliers all contain specific limits on the amount to be imported and further annual quota growth is restricted to one-half of 1 percent for Taiwan, Hong Kong and Korea, and 3 percent for China.

However, the——

Mr. **Fowler**. Excuse me. I hate to be the heavy in this, but we have about 10 minutes left.

If you could summarize and conclude of your testimony, we will put the whole thing in the record, of course. But I presume you understand that our time has almost expired.

Mr. **Horn**. Fine.

The bottom line here is that over the past 3 years, we have seen imported sweaters grow from about a 54-percent share of the U.S. market to 65 percent. The big four have been the primary suppliers or gainers in that share. They have done this using two vehicles. One is overshipment of quota; in 1983, about 875,000 dozen, which represented about 3 percent of the market, representing an overshipment of quota.

The subsequent primary vehicle was the use of non-MFA fibers sweater. The amount of those which came in in 1983 were 4.5 million dozen, representing a 14-percent share of the U.S. market.

Now you might ask—the assumption here is this is a deliberate use of a loophole to continue to target the U.S. sweater market and gain share at the expense of the domestic producers and other producers. Now you can say: What is the value of these non-MFA fibers?

Well, their aggregate value at the port runs about 60 to 65 percent above that of your MFA sweaters, so that you are talking about a high value item. In the reverse of that, we would suggest that ramie makes a very poor sweater, one that does not last as long as one made with acrylic, cotton or wool. Therefore, we think the American consumer pays more, but gets less, with these non-MFA sweaters.

The fact is, we have something that is enormously disruptive in this one particular area. We think it is repeated in literally dozens of other areas. They use the loopholes; they use them for overshipment of quota.

I think I will conclude and say that we feel very strongly that the MFA as a document or as an agreement is about as outmoded as the Breckenwoods Monetary Agreement at this point. It was put together 15 years ago, or more. It is ready for drastic revision. Some of the problems which allow overshipment, which allow disruption, can and should be dealt with. And we endorse your efforts to begin that long process for getting the upper hand and getting control of the situation.

[The prepared statement follows:]

STATEMENT OF FRANK J. HORN, DIRECTOR, MARKETING RESEARCH, MONSANTO FIBERS & INTERMEDIATES CO.

Mr. Chairman and members of the Committee, my name is Frank J. Horn and I am Director of Marketing Research for Monsanto Fibers & Intermediates Company. I appreciate the opportunity to appear before you today to bring to the Committee the viewpoint of Monsanto and the U.S. man-made fiber industry on the very critical impact of imports on this important industrial sector, and on the ways in which major exporting countries circumvent existing laws aimed to prevent market disruption.

Monsanto Fibers & Intermediates Company is the third largest man-made fiber producer in the United States with 1984 sales of $1.2 billion and approximately 10,000 employees. Monsanto currently produces acrylic, modacrylic and nylon fiber products for apparel, home furnishings and industrial market segments. Further, Monsanto is a member company of the Man-Made Fiber Producer Association, a group of 15 companies which produce over 90% of the man-made fibers produced in the U.S. today. This sector of the textile industry employs 75,000 workers in 30 states and produces over 8.2 billion pounds of fiber each year. Man-made fibers account for nearly 75% of fiber consumption in U.S. textile mills.

My intention is to concentrate on the severe impact of one product situation of great importance to Monsanto as a company and the industry in general, namely acrylic fiber and a major end product, sweaters. This situation, however, is representative of dozens of apparel product situations in which Far Eastern exporting countries have specifically targeted key U.S. apparel markets through building integrated manufacturing systems, starting with fiber production and shipping an end product such as sweaters to the United States for retail distribution.

Over the past ten years, final consumption of acrylic fiber in the United States has shown no growth. There was a cyclical peak of 756 million pounds in 1977 but since then, volume has steadily declined to 600 million pounds in 1984, approximately the same volume as 1974. During the ten year period imports share of market increased steadily from 17 to 29%. About 72% of acrylic imports come into the country in the form of sweaters.

Over the past ten years, acrylic fiber producing capacity in the Far East has grown from 885 million pounds to 1730 million pounds per year, an increase of 95%. Meanwhile, United States capacity has declined from a peak of 870 million pounds to approximately 700 million pounds, a decline of 19%. All major U.S. acrylic fiber producers have shared in this capacity reduction including Monsanto who just recently announced a significant capacity reduction involving the loss of 650 jobs. The capacity closed in the U.S. was fully competitive in an economic and quality sense.

Over the ten year period, the Far Eastern capacity utilization rate in producing fiber for their intended world market has averaged an outstanding 92%. In contrast, United States capacity in producing for their intended domestic market has averaged an unacceptable 62%, a rate well below that which would permit breakeven economics. Indeed, over the past five years the U.S. utilization rate for the intended domestic market has steadily declined to 56% in 1984—as import penetration has increased. We note that in the last five years Far Eastern producers continued to increase capacity, by 20%, in spite of the well documented downward trend in final consumption in their key export market.

Sweaters, in particular sweaters made of acrylic fiber, were one of the first target markets for Far Eastern exporting countries, especially the Big Four of Taiwan, Hong Kong, South Korea and lately the Peoples Republic of China. Sweaters often are one of the first products of a developing country for several reasons. First, sweaters of good quality are relatively easy to make in that fewer and less demanding manufacturing steps are required as compared, for example with a shirt, and fabric finishing requirements are far less demanding. Second, fit of finished garment is not nearly so critical as in cut and sew items. Importantly, sweaters are raw material intensive, not labor intensive like many apparel items. Thus, while sweaters are an optimum first product for a developing country, a reliable supply of fiber raw material is mandatory. In the case of sweaters, the fiber raw material for the mass market has been acrylic fiber since the early 1960's. Thus, the targeting of the U.S. sweater market by the Big Four typically was marked by the construction of acrylic fiber plants linked to downstream operations including sweater assembly.

Because by the early 1970's imported man-made sweaters, essentially all of acrylic fiber, had come to dominate the U.S. market with a share greater than 50%, man-made fiber sweaters became recognized as an "import sensitive" item which warranted strict quota control. Current Bilateral Agreements with the Big Four suppliers all contain specific limits on man-made fiber sweaters. Further, annual quota growth is restricted to 0.5% for Taiwan, Hong Kong and Korea and 3% for China. However, the Big Four have persisted in achieving even greater penetration of the U.S. sweater market. Increased market penetration has been achieved not only with man-made fiber but with cotton and wool, the three of which are known as the MFA fibers.

Over the last three years, imports share of the U.S. sweater market has increased from 54% to 65%. This dramatic increase has been achieved, almost entirely by the Big Four through: (a) overshipment of sweater quotas in MFA fibers and (b) through export of sweaters of non-MFA fibers, namely silk and ramie. On the one hand, such activity reflects a blatant disregard of Bilateral Agreements, on the other the use of a loophole in the MFA to avoid compliance with the spirit of that agreement. The result has been dramatically increased market penetration and, of course, escalation of U.S. sweater market disruption.

First, let us review the overshipment of specific limits. Last summer at the opening meeting of MFA renewal discussions, the U.S. Chief Textile Negotiator stated that in 1983 a total of 84 specific limits for various categories (including sweaters) from 12 different countries were overshipped with the overshipped quantity amounting to about 81 million square yeard equivalents. While this clearly states the overall overshipment of quota problem, in 1983 the Big Four overshipped man-made sweaters alone by 10% or 28 million square yard equivalents (875 thousand dozen). Thus, man-made sweaters, a sensitive category, accounted for about 34% of total overshipments in 1983. Obviously, that quantity of "overshipped" man-made sweaters represented a tremendously disruptive impact on the domestic market. In 1984, the Big Four shipped at quota in man-made fiber sweaters, presumably not because of any hesitation in overshipping quota, but because of increasing recognition of opportunities in non-MFA fiber sweaters.

Second, let us look at activity in non-MFA fibers more closely. As recently as 1981, imported non-MFA fiber sweaters held barely 1% of the U.S. sweater market but in 1984 such imports amounted to 4.5 million dozen, essentially all coming from the Big Four. Such volume represents a 14% market share, an increase coming almost entirely in one year. This represents an unprecedented market disruption situation, the use of a loophole in complete disregard of the spirit of the MFA, a determination to capture share of market without regard to consequences to the domestic industry.

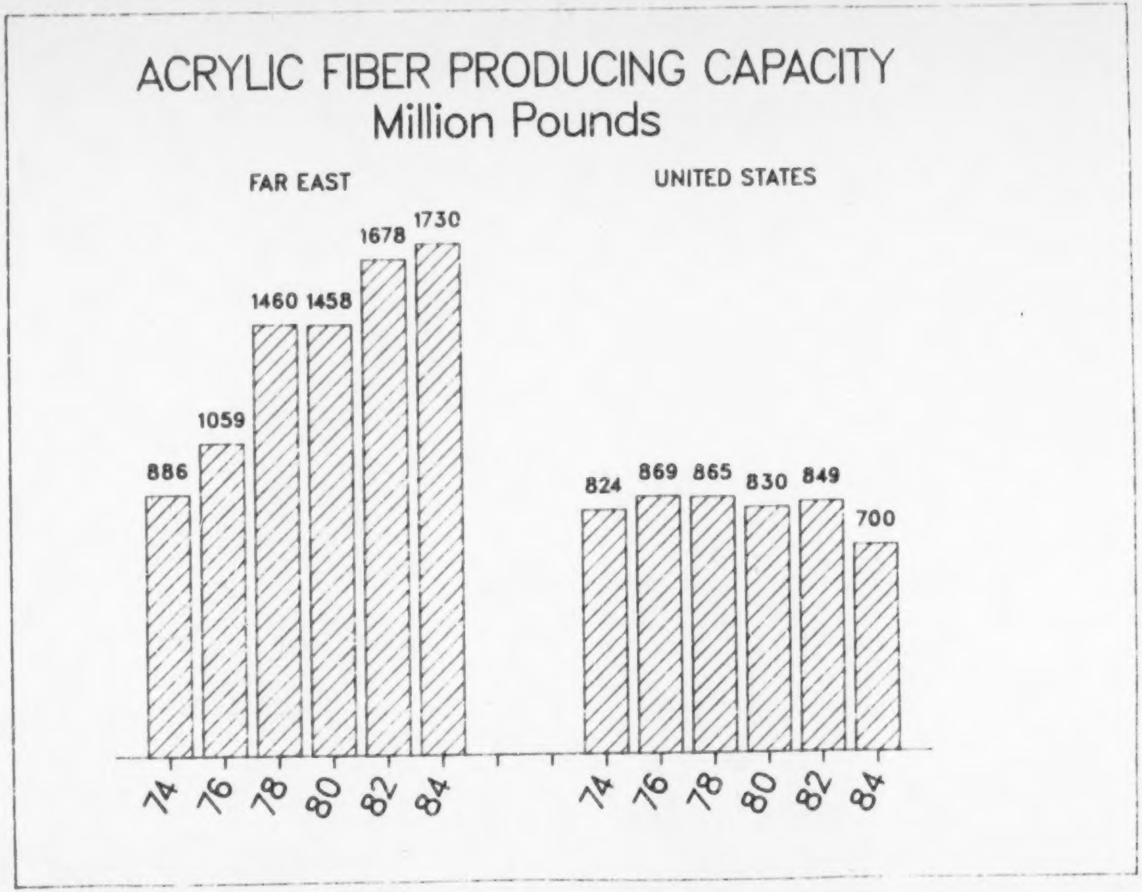
We feel that there are some additional considerations for the Committee in the matter of non-MFA sweater imports. First, what comes into the U.S. as a non-MFA fiber sweater is chief value silk or ramie. Such sweaters can be all silk or all ramie but most often are blends of silk or ramie with some other fiber. In many instances that other fiber is acrylic. Indeed, there is clear evidence that large quantities of acrylic fiber now enter the U.S. market in quota-free non-MFA fiber sweaters. Second, what do non-MFA fiber sweaters represent in terms of value to the American consumer? A comparison of average price per dozen of imported MFA fiber sweaters shows that the average price of non-MFA fiber sweaters consistently runs 60 to 65% above that of MFA fiber sweaters. In addition, there is the matter of value in use; we do not believe that sweaters made, for example, of ramie perform in use as well as those made of acrylic or wool fiber. In simple terms, we do not believe such a sweater will be serviceable as long as a comparable sweater of acrylic or wool. Thus, it can be concluded that, in many instances, the consumer pays more for the non-MFA fiber sweater but gets less. We conclude that the Big Four are shifting their sweater export mix to higher value products (of dubious value) which enhance their profits and foreign exchange earnings capability. Clearly, the sudden availability of non-MFA sweaters does not represent a price break for the American consumer.

There is a broader perspective on matter of value to the American consumer in terms of the average retail price paid by the consumer for imported versus domestically produced sweaters. Accurate measurements of average retail prices are possible through the use of consumer research data available from the Market Research Corporation of America. This information demonstrates that back in 1974, imported sweaters of all fibers did in fact represent a better price for the American consumer as average import retail prices, as reported by the consumer, ran 5 to 10% below domestically produced sweaters. However, by 1984, the situation had reversed itself with the average price of imported men and boys sweaters about 3½% above domestic and imported women and girls a dramatic 19% above domestic.

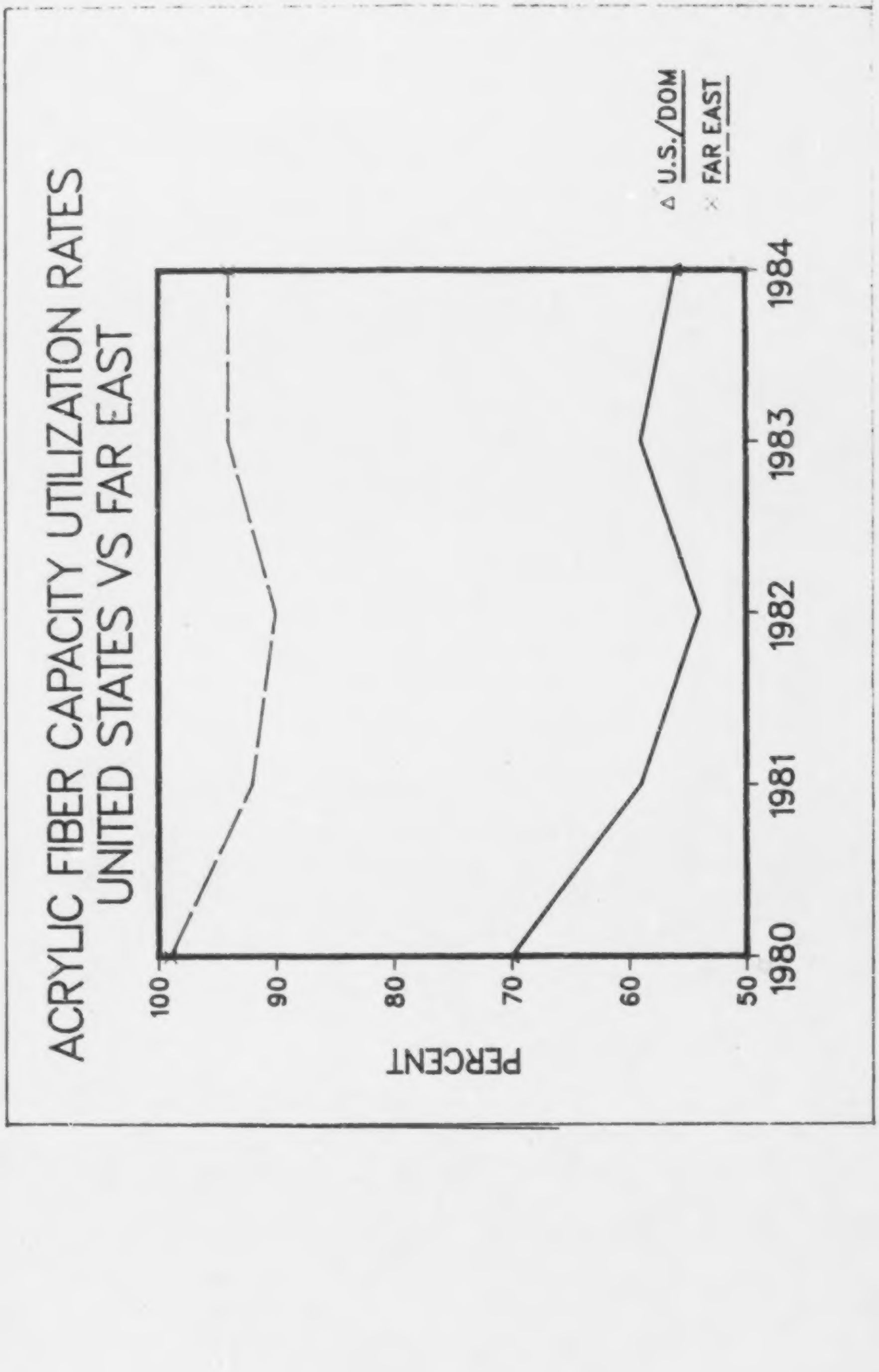
We already have mentioned Monsanto's response to this situation involving capacity reduction and job losses. We would expect the loss of many additional jobs due to the cumulative effect of moving downstream through yarn spinning and knitting and garment assembly. For many years, we have taken export business at distress prices in hopes that import controls would be effective in restraining the continual erosion of domestic business. However, with problems such as overshipment of quota, additional imports of acrylic fiber under the non-MFA fiber loophole and unremitting increases in acrylic fiber capacity in the Far East (specifically targeted at our domestic business), we saw no other alternative.

We have addressed the problem of one man-made fiber in one product area but we know that there are dozens, if not hundreds, of other parallel situations. If the American fiber/textile/apparel industrial complex is to continue at a minimum viable level, we must have improved methods of import control and relief from the volume of imports now experienced through the unwillingness of our trading partners to live up to the letter and the spirit of existing treaties and laws.

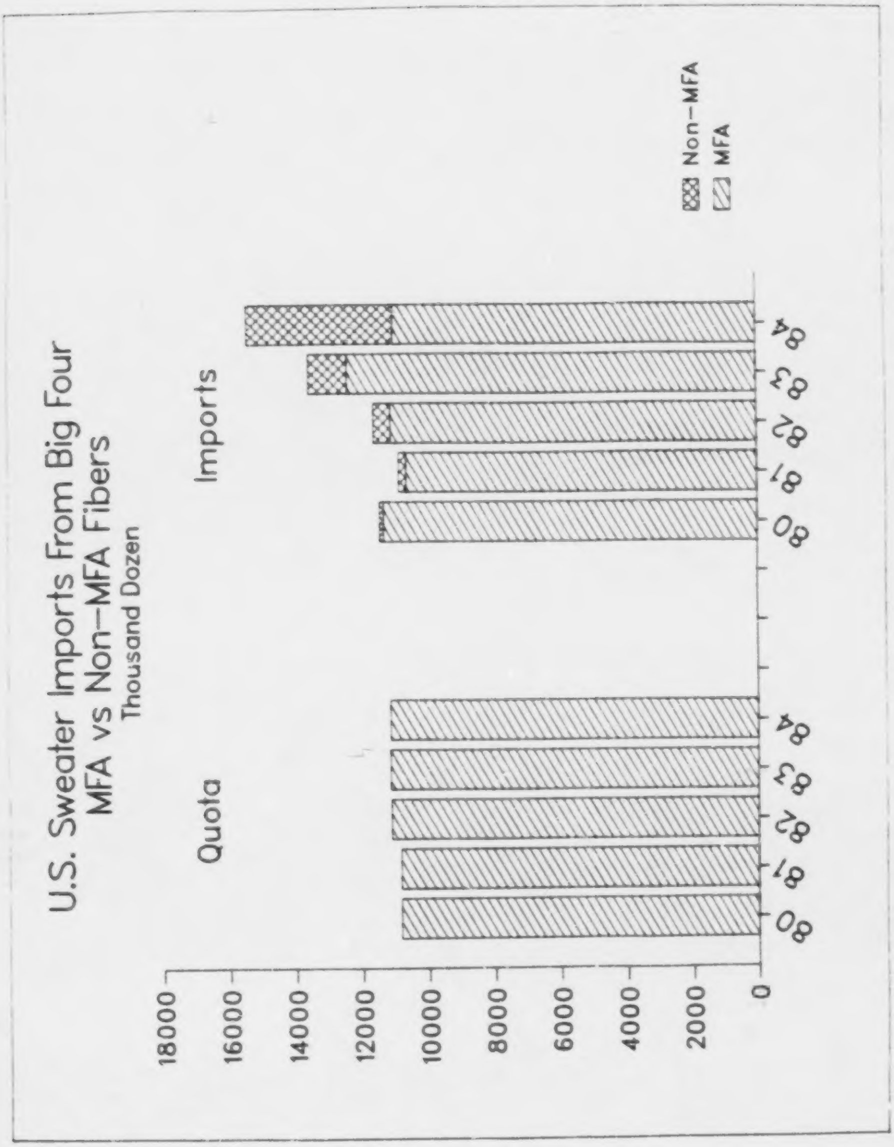
Mr. Chairman, I appreciate the opportunity to appear here today and I will try to answer any questions that you or members of the Committee might have.



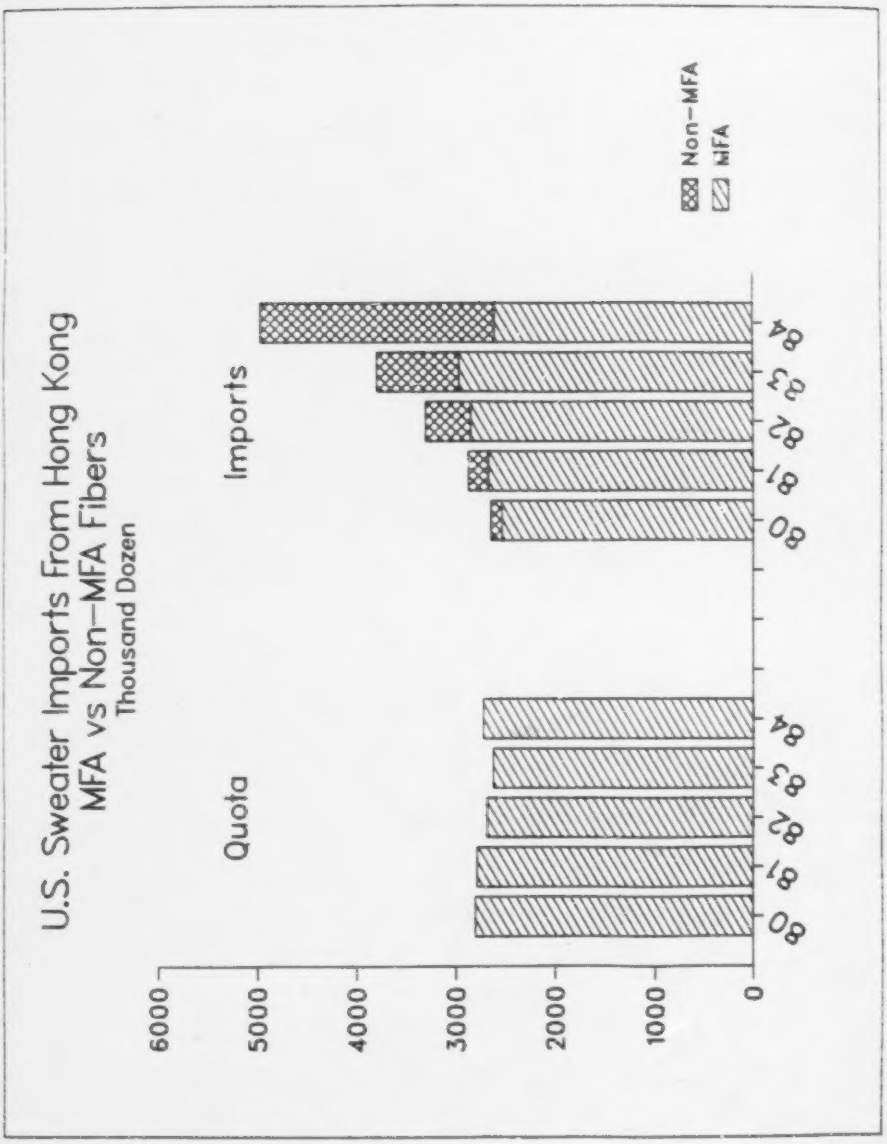
ACRYLIC FIBER PRODUCING CAPACITY
Million Pounds

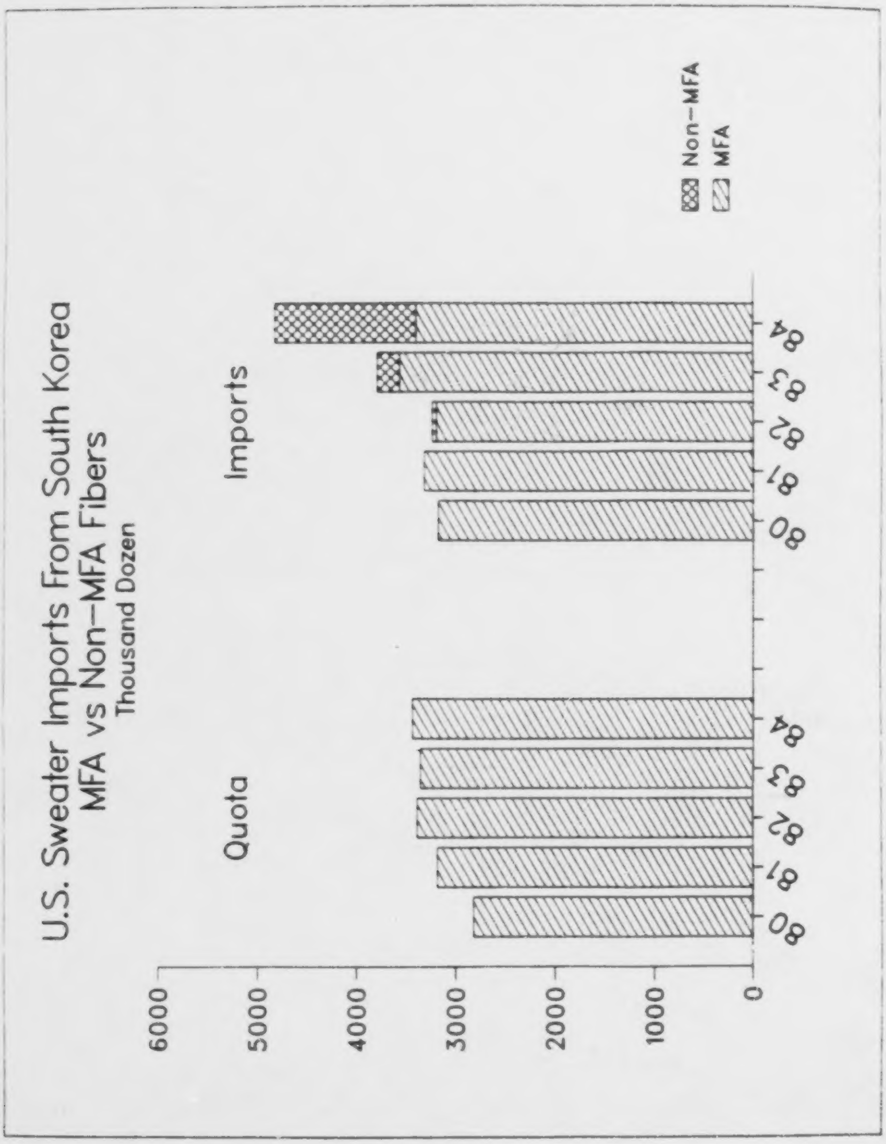


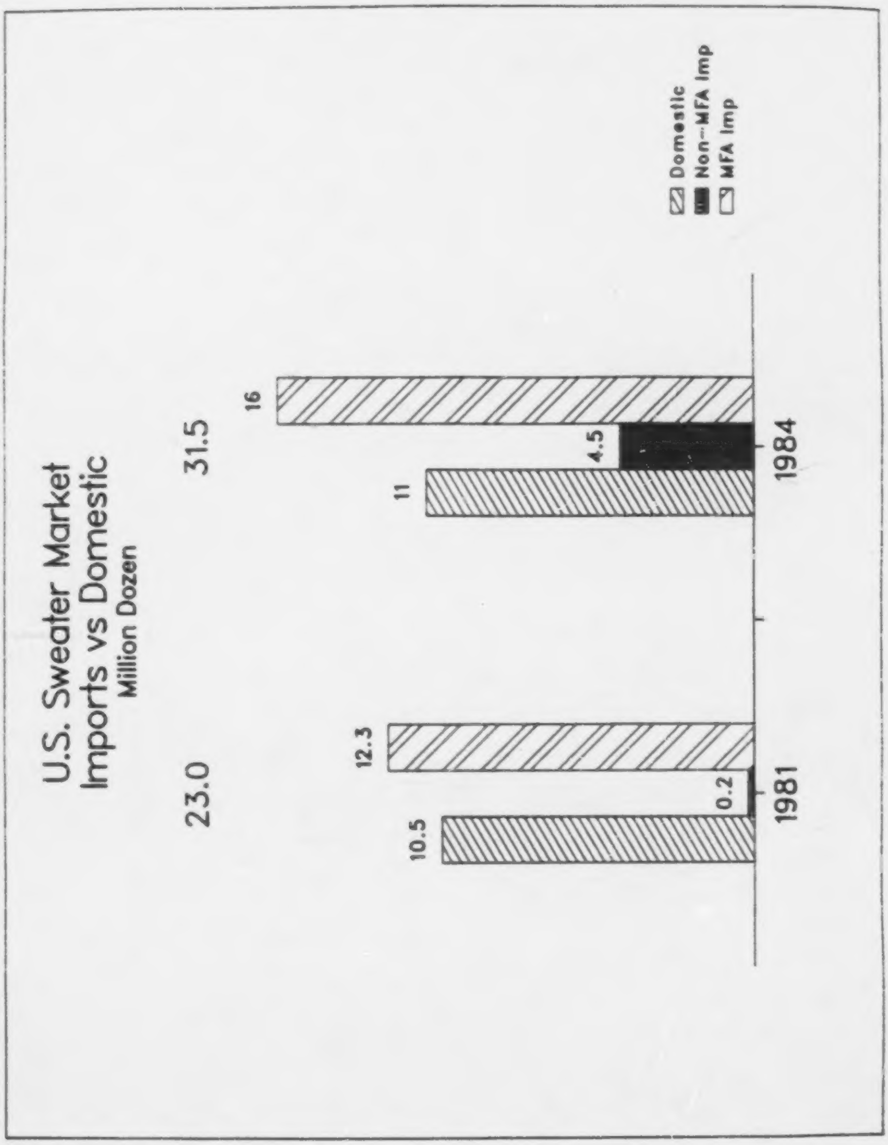
ACRYLIC FIBER CAPACITY UTILIZATION RATES
UNITED STATES VS FAR EAST

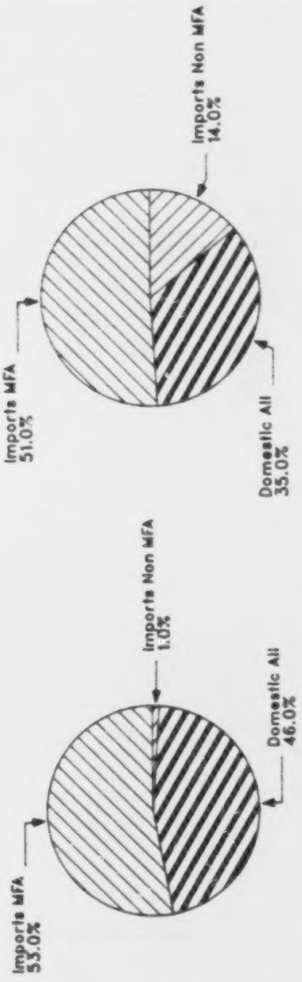


U.S. Sweater Imports From Big Four
MFA vs Non-MFA Fibers
Thousand Dozen

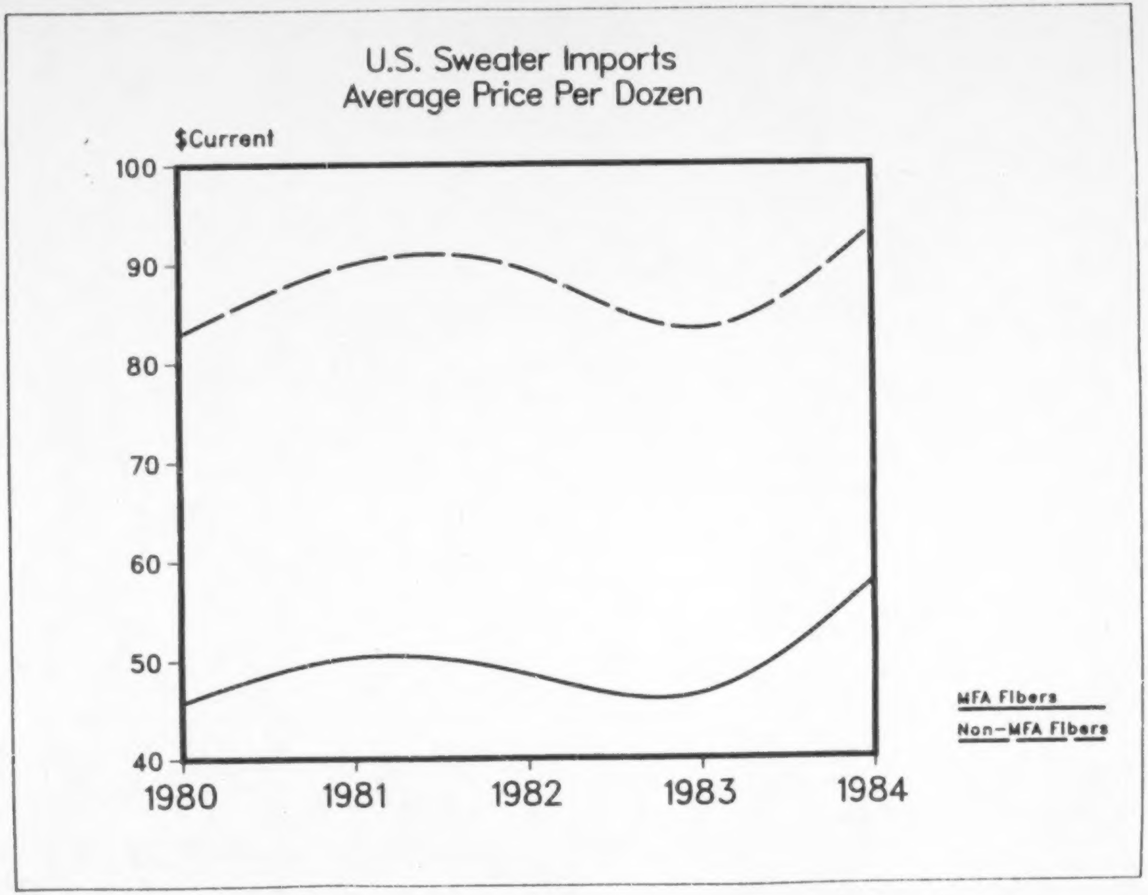

U.S. Sweater Imports From Hong Kong
MFA vs Non-MFA Fibers
Thousand Dozen
Quota
Imports
6000
5000
4000
3000
2000
1000
0
80
81
82
83
84
80
81
82
83
84
Non-MFA
MFA

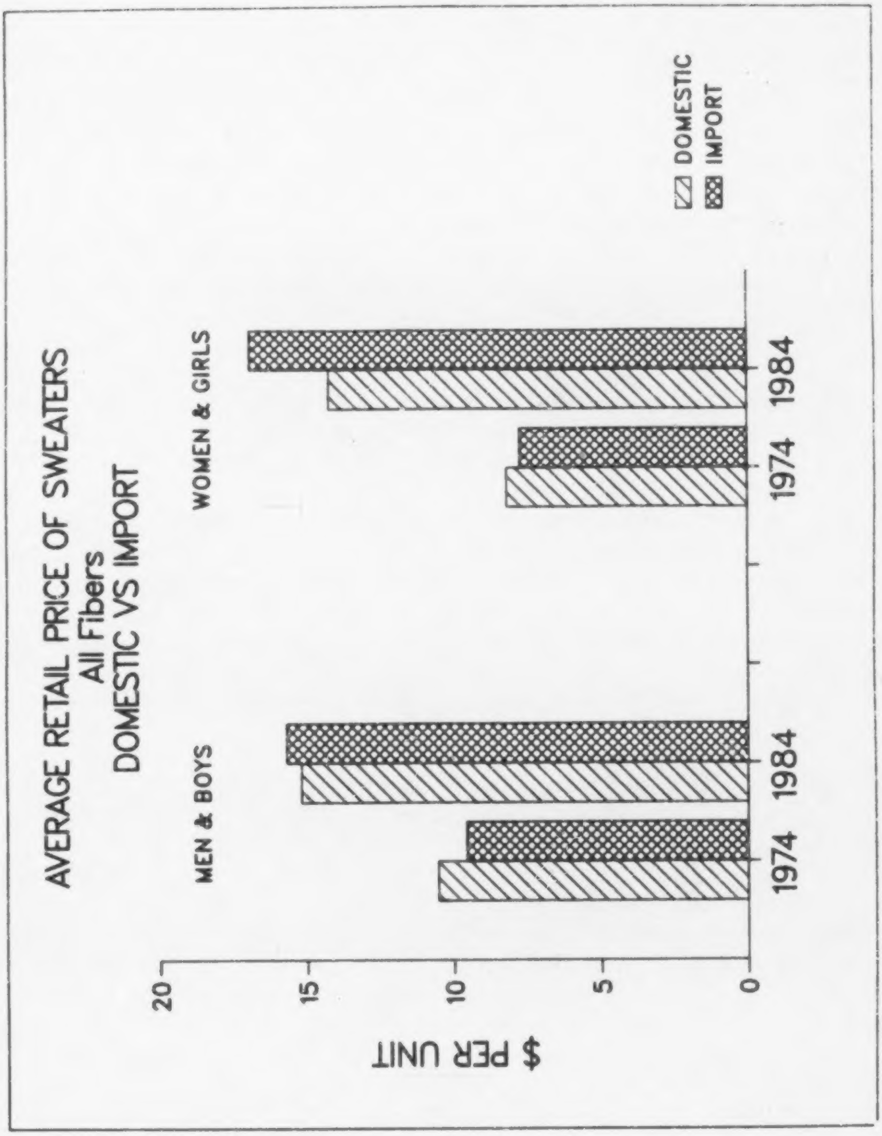

U.S. Sweater Imports From South Korea
MFA vs Non-MFA Fibers
Thousand Dozen
6000
5000
4000
3000
2000
1000
0
Quota
Imports
80
81
82
83
84
80
81
82
83
84
Non-MFA
MFA


U.S. Sweater Market
Imports vs Domestic
Million Dozen
23.0
31.5
10.5
0.2
12.3
1981
11
4.5
16
1984
▨ Domestic
■ Non-MFA Imp
▧ MFA Imp



U.S. Sweater Market Shares
Import vs Domestic


U.S. Sweater Imports
Average Price Per Dozen
$Current
100
90
80
70
60
50
40
1980
1981
1982
1983
1984
MFA Fibers
Non-MFA Fibers


AVERAGE RETAIL PRICE OF SWEATERS
All Fibers
DOMESTIC VS IMPORT
$ PER UNIT
20
15
10
5
0
MEN & BOYS
WOMEN & GIRLS
1974
1984
1974
1984
▨ DOMESTIC
▩ IMPORT

Mr. **Fowler**. Thank you very much.
Mr. Webster.

STATEMENT OF R.L. WEBSTER, PRESIDENT, SOUTHERN COTTON GROWERS, INC.

Mr. **Webster**. Mr. Chairman, members of the committee, I am R.L. "Bobby" Webster, a cotton farmer from Waynesboro, GA, and I am presently serving as president of the Southern Cotton Growers, Inc., on whole behalf I address you today.

Southern Cotton Growers, Inc. is the regional cotton producers' organization in the Southeastern United States representing cotton farmers from throughout Alabama, Georgia, North Carolina, South Carolina and parts of Florida, Tennessee, and Virginia. Our office is located in Dahlonega, Georgia.

Mr. Jenkins, we as cotton farmers in the Southeast applaud you and your colleagues in the House for introducing and sponsoring House bill 1562, the Textile and Apparel Trade Enforcement Act of 1985, and the enforcement of the Multi-Fiber Arrangement. We have been forced to sell our cotton at below cost due to the increase in cotton textile imports during the past couple of years, imports which have cost the American cotton farmer upward of 2 million bales in domestic off-take, 2 million bales which could have made the difference between survival and bankruptcy to many of our farmers, not to mention the loss of tens of thousands of jobs in our textile industry as well as the closing of many of our mills throughout the Southeast.

Even though our domestic consumption of cotton has greatly increased over the past few years, 7.7 million bales in 1983 and 8.2 million bales in 1984, the level of the total domestic market supplied by U.S. mills and American cotton farmers has dropped to approximately 5.1 million bales, the difference being made up by imported cotton textiles.

When you consider that four out of five bale equivalence of cotton in imported textiles are foreign grown, the survival of the American cotton farmer is questionable, unless action is taken to curtail this unfair activity. Such imports are the direct cause of depressed cotton prices, and hence high government costs during the past couple of years.

Before such high textile imports, the cost to the Federal Treasury for the cotton program was within reasonable limits and the program worked, and it can still work, both in reducing government costs while providing our farmers with minimum protection in circumstances over which he has no control.

The free market oriented concept for agriculture in today's world economy is a myth. It is a myth to think that the American textile mills and the American farmer can compete in a free market which pays depression wages, controls production, sets prices, subsidizes farm production, subsidizes exports and produces mainly for the American dollar. Yet, this is the factual situation we face today.

Depressed cotton prices have resulted from shrinking domestic markets brought about by increased cotton textile imports. Inasmuch as annual textile import growth over the past 4 years should have been about 6 percent under our existing bilateral agreements, and inasmuch as the actual growth exceeded 16 percent over that same period, increasing to 29 percent in 1984, there can be little doubt about the inadequacy of the Federal enforcement of quota laws and bilateral agreements.

Had cotton textile imports grown by only 6 percent during the 1983 and 1984 seasons, the estimated price per pound of cotton would have been 76 cents rather than the 66 cents our farmers actually received. Had this happened, the 12.7 million bales which were actually sold would have brought 10 cents per pound more, or an additional $48 per bale. This means we had a total loss on cotton which was actually sold of over $600 million.

In addition, total cotton sales would have increased by upwards of a million or more bales. This resulted in an additional loss of $400 million in cotton not sold. The total loss to the American cotton farmer, due to these excessive cotton textile imports, is close to $1 billion in 1983 alone.

Some of that loss was offset by deficiency payments, thereby imposing nearly a half billion dollars in costs to the Government, a half billion dollars out of the Federal Treasury, which is directly attributable to cotton textile imports.

If the current situation is allowed to continue unchecked, it could result in a 2.5 million bale domestic cotton market, bringing about the demise of the cotton industry in this country as we know it today.

Mr. Chairman, members of the committee, we support the passage of H.R. 1562 and the enforcement of the Multi-Fiber Agreement.

Thank you, sir.

[The prepared statement follows:]

STATEMENT OF R.L. "BOBBY" WEBSTER, PRESIDENT, SOUTHERN COTTON GROWERS, INC.

I'm R. L. "Bobby" Webster, a cotton farmer from Waynesboro, Georgia and am presently serving as president of Southern Cotton Growers, Inc. on whose behalf I address you today.

Southern Cotton Growers, Inc. is the regional cotton producers' organization in the Southeast United States representing cotton farmers from throughout Alabama, Georgia, North Carolina, South Carolina and parts of Florida, Tennessee and Virginia.

Mr. Chairman, we cotton farmers in the Southeast applaud you and your colleagues in the House for introducing and sponsoring H.R. 1562, the Textile and Apparel Trade Enforcement Act of 1985 and the enforcement of the Multi-Fiber Arrangement. We have been forced to sell our cotton at below cost due to the high increase in cotton textile imports during the past couple of years.

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Before such high textile imports, the cost to the Federal Treasury for the cotton program was within reasonable limits and the program worked, and it can still work, both in reducing government costs while providing our farmers with minimum protection in circumstances over which he has no control.

The free market oriented concept for agriculture in today's world economy is a myth. It's a myth to think that the American textile mills and the American farmer can compete in a free foreign market which pays depression wages, controls production, sets prices, subsidizes farm production, subsidizes exports and produces mainly for the American dollar. Yet, this is the factual situation we face today.

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If the current situation is allowed to continue unchecked, it could result in a 2.5 million bale domestic cotton market, bringing about the demise of the cotton industry in this country as we know it today.

Mr. Chairman, Members of the Committee, we support the passage of H.R. 1562 and the enforcement of the Multi-Fiber Arrangements.

Mr. JENKINS. Thank you very much, Mr. Webster and Mr. Horn, for your testimony.

I might say to any other person in the room that wants to submit a statement, the record will remain open until April 30. Any written statement that any other witnesses might like to make should be sent to my office in Gainesville. We will see that it is made a part of the record.

I want to again express my appreciation to the Members of Congress who have come to Georgia to conduct these hearings. We are now going to recess until tomorrow. The committee will be going to visit some textile mills today, and we are going to have a hearing in Atlanta tomorrow before we leave Georgia.

To those witnesses and people who have come long distances from all over the State, I want to express to you my appreciation also for coming, because I know these hearings are of great interest to all of you.

Thank you very much for your attendance, for your interest. And, once again, I want to thank the panel.

[Whereupon, at 12:20 p.m., the hearing was adjourned, subject to the call of the Chair.]

CURRENT CONDITIONS IN THE TEXTILE AND APPAREL INDUSTRIES

MONDAY, JULY 15, 1985

House of Representatives,
Committee on Ways and Means,
Subcommittee on Trade,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:35 p.m., in room B-318, Rayburn House Office Building, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

Chairman Gibbons. The Subcommittee on Trade will come to order. Today marks our third hearing on the subject of conditions of competition in the textile and apparel industries. The purpose of these hearings is to examine the competitive posture of our domestic textile and apparel industries and the functioning of our domestic laws and international agreements that are related to the textile trade.

In that context, we are also receiving testimony on H.R. 1562, the Textile and Apparel Trade and Enforcement Act of 1985, which is pending before this subcommittee. These hearings, as you know, began on April 3, and at that time the subcommittee received testimony from administration witnesses as well as major trade associations and labor unions affiliated with the textile industry.

For the second day of hearings we traveled to Georgia at the invitation of our distinguished colleague, Mr. Jenkins, and then we went on to Alabama, South Carolina, Texas, Arizona, and back to North Carolina again, for additional factfinding. Today we continue this effort to understand the problems facing this industry.

We are going to hear today from Members of Congress including members of the Congressional Textile Caucus, and from Levi Strauss, the largest employer of apparel workers, and from other U.S. companies that are affected by textile trade restraints.

Our first panel of witnesses is from the Congressional Textile Caucus; Mr. Ed Jenkins, Mr. Carroll Campbell, Mr. Butler Derrick, and Mr. Howard Coble. We are pleased to have all of you here. Welcome.

I am sorry that they scheduled us in this small room; one reason that I am 5 minutes late is that I went over to the big room. I apologize for this.

All right, Mr. Jenkins whenever you are ready.

STATEMENT OF HON. ED JENKINS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF GEORGIA, ON BEHALF OF THE CONGRESSIONAL TEXTILE CAUCUS

Mr. Jenkins. Thank you, Mr. Chairman.

First of all, I want to express my appreciation to the chairman and to the members of this subcommittee for the fact that we have gone into several States, I am very grateful for that. The committee will have the opportunity and has had the opportunity of seeing firsthand not only some of the difficulties that this industry is facing across the United States but also to see that this is not a low-tech industry. This is a modern textile industry, from every facet, which has continued to try to upgrade and modernize so as to be a world competitor in the textile apparel field.

I am submitting an entire statement of some length for the committee and I recognize that time is limited so that I am going to very briefly summarize that entire statement with a request that my entire statement be inserted into the record.

Chairman Gibbons. Fine, without objection, Mr. Jenkins, your entire statement will be included and you have as much time as you want.

Mr. Jenkins. Thank you, Mr. Chairman.

First of all, let me say that the bill that we are considering, H.R. 1562, has gained the support of almost two-thirds of the entire Congress and——

Chairman Gibbons. Before you go on, let me ask those who are standing up to avail yourselves of the seats around here, please.

Mr. Jenkins. Mr. Chairman, first of all, let me say that this Bill has thus far gained the support of almost two-thirds of the House and over half the Senate and something that is extremely enlightening is the fact that there are 18 States where every single Member of the Congress, both Republican and Democrat, from 18 State delegations that are now cosponsoring this bill.

Obviously, there is great concern about this particular industry that employs 1 out of 10 of every manufacturing jobs in this Nation, which really encompasses a greater number of workers than automobiles, I think, and steel combined.

Chairman Gibbons. Yes.

Mr. Jenkins. So it is an industry that is critical to this Nation.

We simply cannot afford not to pass either this legislation or something similar if we are to salvage this industry. Failure to pass this legislation will result, by 1990, in a loss of 947,000 textile and apparel workers; 943,000 other American workers due to the ripple effect.

This would have a significant impact upon the budget deficit. It would lower the consumer disposable income by $19 billions; and GNP by $40 billions if the present trend continues and if we take no action whatsoever.

The American fiber, textile and apparel complex deserves to remain viable because it is the most competitive and productive textile industry on Earth. It spends approximately $2 billion annually in capital outlays to modernize, yet, it has kept its prices from rising at half the rate of other manufacturing.

I might say, Mr. Chairman, just this morning, I went into Alabama, to visit a company that you have previously visited. Without any question, it is the most modern apparel complex anywhere, and yet, they tell me that they will not be able to survive unless some changes are made in the immediate future.

In terms of productivity, the argument has been raised that the United States only deserves if it is productive enough. Yet, the People's Republic of China, which has made dramatic inroads into almost segment of our market, practically unchecked, produces the same amount of textile product and poundage every year as the United States, utilizing a work force over two times larger than the U.S. work force. I simply say that our productivity today is unquestioned around the world.

The intent of this legislation is to translate what we believe to be is the intent of the MFA into law, which is to allow the lesser developed nations fair, yet, orderly access to the markets of the industrialized nations. If the bill is passed, the worst that will happen to these underprivileged trading partners, is that they will still obtain 37 to 38 percent of the U.S. market, with opportunity to increase that share annually.

It is a mystery that the EEC imposed a unilateral move to control their textile and apparel imports some years ago, I believe that it was 1977, and they were successful in practically absent of criticism. They used the premise of the MFA to bring order to world textile and apparel trade and their action led to modification of the MFA through a protocol understanding that specifically permits these restraining actions against imports.

Why is our Government reluctant to follow this precedent when the United States is badgered by four times the imports the European Economic Community receives?

We are enmeshed in a naive trade policy that ignores the inequities of third world wage rates; State-controlled economies versus free-market economies; nations that erect unnecessary trade barriers against our exports; nations that unfairly subsidize their exports to this country. These nations are virtually given license to step all over us as we quickly lose our market share and reach record trade deficits annually.

We simply cannot afford to lose this Nation's industrial base because the service will not keep us a world power. We cannot afford to lose the textile industry because, in turn, our national defense will go down the drain.

I simply want to urge this subcommittee to take prompt action if there is concern, and I know that there is concern with many Members of the House and particularly, this committee.

But I simply want to say to the subcommittee, that if action is not taken, then there is action being taken by this inaction to destory or permit the destruction of an industry that I think should not be sacrificed for the benefit of all of the people.

I appreciate the opportunity of testifying before the committee and ask that my entire statement be made a part of the record. And I plead with the committee to move forward with legislation to bring some sense of balance to this problem that faces not only the Southeast, but most of the States of this Nation.

Thank you, Mr. Chairman.

[The prepared statement follows:].

STATEMENT OF HON. ED JENKINS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF GEORGIA, ON BEHALF OF THE CONGRESSIONAL TEXTILE CAUCUS

Mr. Chairman, thank you for allowing me the opportunity to present my testimony on behalf of many of my colleagues concerning the problems facing the U.S. fiber, textile and apparel complex today. We in the Congressional Textile Caucus have introduced legislation, H.R. 1562, the Textile and Apparel Trade Enforcement Act of 1985, which is designed to address these trade problems more comprehensively than any other legislative or administrative initiative at this time. This Act has gained bi-partisan support from 290 co-sponsors in the House to date, and among these, eighteen states of the union stand solidly in support of our legislation.

We believe the reason this legislation has gained support from every sector of this nation is because the recent decline in numbers of U.S. textile and apparel operations due to cheap imports has begun to affect other sectors of our economy. Certainly, the Southeast and Northeast and California are the most heavily concentrated textile and apparel areas of our nation, but according to a recent econometric analysis by Data Resources, Inc. (DRI), the failure to pass our legislation would result in unemployment for not only 947,000 Americans in the textile and apparel industries, but 943,000 others, in other industries because of the ripple effect. Failure to pass H.R. 1562, the study further contends, would increase the federal budget deficit by $24 billion, lower consumer disposable income by $19 billion and lower the GNP by $40 billion.

Mr. Chairman, I am speaking today not only on behalf of a clear majority of my colleagues from both sides of the aisle in the House who have pledged support for our legislation, I am speaking on behalf of 300,000 Americans who have lost their jobs since 1980 because of imports. In my own state of Georgia the Georgia Department of Labor has expressed enough concern over the import problem in the textile and apparel industry to set up a special task force in anticipation of the damage to employment in the state.

Before I digress into exactly what the Textile and Apparel Trade Enforcement Act does, I would like to emphasize to this panel the exceptional competitive spirit and productivity of our domestic fiber, textile and apparel complex. We are referring to an industry which has increased its productivity by 4.5% annually since 1984, compared to 2% annually for all U.S. manufacturing. The U.S. fiber/textile/apparel industry employs approximately 2 million workers in 7,200 plants and produces 12 billion pounds of product annually, compared to the Peoples Republic of China's track record of 4.3 million workers in 12,000 plants producing the same poundage of textile product annually. Does the Peoples Republic of China deserve to get ahead on the basis of productivity?

In terms of competitiveness, the U.S. textile industry spends close to $2 billion annually modernizing plants and specializing product lines in order to remain as efficient as possible. Prices of American fiber, textile and apparel products, on the other hand, have risen only half as fast as all manufacturing products, with a 90% increase since 1971, versus a 183% increase for all other U.S. manufacturing.

Since 1980, the objectives of orderly market growth set forth in the Multi-Fiber Arrangement have not been achieved. From 1981 to 1984, imports of textile and apparel have grown at an annual rate of 19%. Our bill doesn't set out to do anything more than the MFA was intended to do.

Specifically, our bill puts limits on imports from major exporting countries which reflect import growth since 1980 at growth rates contemplated by the 1981 extension of the MFA. The Textile and Apparel Trade Enforcement Act would cover all textiles, apparel, textile products and man-made fibers. The act applies to all exporting countries with the exception of Canada and the European Economic Community.

In 1985, imports from the major exporting countries, capturing more than 1.25% of the U.S. market would be limited to levels if the MFA had been effectively enforced during 1980–1984. In each future year, the growth rate of imports from major exporting countries would be limited to 1%.

In 1985, the smaller countries capturing less than 1.25% of U.S. imports, plus Mexico, would be 115% of 1984 levels except for import sensitive categories; that is, categories for which imports equal 40% or more of domestic production, in which 1985 import levels would be 101% of 1984 levels. After 1985, annual quota growth would be 6% for each category except 1% for import sensitive categories. When imports from a small exporting country—except countries in the Caribbean region—reach 1.25% of U.S. imports, quota growth in all categories would be 1%.

In categories in which a country has no or few exports, the country would be allowed to ship to certain minimum levels. Annual growth would then be 1% for major exporting countries or 6% for smaller exporting countries, unless the category is highly import sensitive, in which case growth would be 1%.

Our bill also contains an import licensing system whereby the Secretary of Commerce would establish regulations to govern the entry of imports to conform with this act. The Secretary is also required to establish this licensing system within 6 months of enactment.

Mr. Chairman, the ultimate intent of H.R. 1562 is to translate into law the objective of the Multifiber Arrangement, which is to bring order to world textile and apparel trade. Clearly, a situation where imports are gaining ground at record percentages annually with some areas reaching a 50% saturation level of our marketshare, while the domestic textile and apparel industry has remained relatively flat, is not an orderly one. The European Community witnessed a similar occurrence in their market a few years ago, and it implemented the objective of the Multifiber Arrangement to rectify the problem with due haste. I cannot help but wonder why in a parallel situation, our own government has blatantly turned its back on American workers. The EEC unilaterally cut back trade from major suppliers, set up low growth rates and a global approach on imports, and they are now absorbing a fourth the imports that the U.S. absorbs. I further wonder why the EEC's actions were condoned with hardly a batted eye and in fact led to the modifications of the MFA through a protocol of understanding that specifically permits the kinds of actions taken by the EEC, in light of our own government's reluctance to invoke similar actions.

It is completely unrealistic for our government to close its eyes to the unjust trade practices practiced by at least 75% of our trading partners, when the U.S. is clearly losing its marketshare to their ruses. This year the merchandise trade deficit is expected to top $140 billion, another staggering record. We treat state-controlled economies as if they were free market economies as ourselves, and there is no comparison. Offending nations that set up barriers to our exports and unfairly subsidize their exports to us get away with hardly a slap on the wrist.

Let me take a minute to mention some specific trade barriers faced by U.S. textile and apparel exporters. The Philippines places a total ban on textiles, used clothing, remnants, wearing apparel except for textiles for use in the manufacture of apparel items for re-export only. India levies an excise tax and countervailing duty on almost all textile products. It requires import licenses on practically all products. Thailand imposes a business tax, special import fee, municipal surtax and import licenses, to name a few. Brazil requires that goods receive an import permit and commercial invoice. Some duty rates are up to 250% cost insurance freight (c.i.f.). The country places an industrialized product tax, merchandise circulation tax, an airport and port improvement tax. Korea assesses a value added tax and a special consumption tax on textile and apparel goods. Since 1967, Korea has had an import plan based on a restricted list of items whose license must be approved by the appropriate ministry or trade association. Certain items are specifically banned.

These are a few of the "protectionist" measures offered by other countries for their own textile and apparel industries.

Our industry can compete with other nations when the scales are evenly balanced. However, the scales are heavily weighted in favor of our foreign trading partners. We seek a balance in world trade. H.R. 1562 sets that balance.

It is completely unrealistic for our nation, made into a world power through the industrial revolution, to assume that it can allow its industrial base to erode pathetically, and rely upon a service base to retain its status as a world power. We cannot survive by taking in everyone's wash!

In addition, textiles are recognized as highly essential to our nation's defense effort. The ability to respond in a mobilization situation and the advancing technology needed for high performance textile products rely upon a viable domestic industry.

Mr. Chairman, I wish I had the time here to discuss several arguments presented against our bill by the Administration a few weeks ago in a weak attempt to discredit it, because we find all its arguments shallow in the face of reason. A point by point rebuttal is attached to this testimony for inclusion in the record, but I will concentrate on a few arguments that are especially in vogue.

We would like to set the record straight on the Administration's contention that the American consumer will bear the brunt of passage of H.R. 1562 into a law. The Administration has stated that consumers will pay $14 billion annually in "hidden" costs due to import restraints advocated in H.R. 1562. We are unable to decipher the source for this figure, but Mr. Chairman, we firmly contend that these so-called "hidden" costs to consumers, whatever that figure might be, are almost solely the result of tremendous markups of 200 to 300% and upward of imported goods at retail level. Many of these imported goods actually sell at higher costs than their domestically-produced counterparts, while others are comparably priced to their domestically-produced counterparts within a few cents. Such price-gouging techniques have benefitted few, at the expense of hundreds of thousands of textile and apparel workers' jobs. Certainly the exploited workforces in the Third World textile and apparel nations have not made off with the profits.

Further, we wish to stress to this Subcommittee that in the absence of domestic sources of textiles and apparel, all Americans will pay higher prices through their noses for foreign goods. With uncontrolled import growth remaining a trend in the textile and apparel market, we could in all likelihood anticipate numerous repeats of the situation where the last velveteen producer in the country was forced to close his doors last October. Within hours of this development the foreign producers raised their price on this fabric by $1.00 per yard. I would be interested in hearing how the complete absence of a domestic textile and apparel industry will benefit the consumers in the long run.

Another concern the Administration has registered in regard to our legislation is fear of retaliation against our agricultural markets by other nations. I must inject a personal observation here to remark that in light of our staggering trade deficits with these very nations, I cannot imagine what else is left to fear except fear itself! It's pretty obvious to many of my colleagues and myself that the recent trend in world trade has been to shunt the U.S. aside in the world demand for corn, wheat, cigarettes and tobacco, as a result of increased foreign production capabilities as well as the overvalued dollar. The People's Republic of China, for instance, is quickly positioning itself to become self-sufficient in wheat by the decade's end. This nation has already achieved a similar goal for cotton and in fact has become such a formidable exporter of cotton that China's inroads into the U.S. cotton textile market could well destroy that industry segment within a brief four years.

In conclusion, Mr. Chairman, I would add that we as a nation are enmeshed in a trade policy that is highly out of sync with the times. I would urge this Subcommittee to act upon H.R. 1562 favorably.

ANSWERS TO THE ADMINISTRATION'S FACTSHEET ON IMPLICATIONS OF THE TEXTILE QUOTA BILL

In opposing H.R. 1562 and S. 680, the Administration has made reference to a number of things it has done to help the U.S. fiber, textile and apparel complex. These actions have been ineffective and clearly insufficient. Indeed, they *are* the reason this legislation has been introduced.

ADMINISTRATION'S ACTIONS TO HELP THE U.S. INDUSTRY

The Administration claims that it has acted consistently and forcefully to protect firms and workers from disruptive imports. The facts show otherwise. The agreement negotiated in 1983 with China provided an annual growth in quotas of 10.1 percent. Agreements negotiated in 1982 with Hong Kong, Korea and Taiwan were supposed to control shipments to one to two percent annually, but since 1982 imports from these three countries increased 40 percent. Other major suppliers were permitted tremendous increases in their shipments to the U.S. For example, Indonesia has increased 213 percent just since 1983; India has increased 54 percent; the Philippines 32 percent; and Brazil 51 percent. The result has been over 300,000 U.S. jobs lost in the textile/apparel industry since 1980.

The Administration claims that in order to permit the industry to compete with foreign producers they have negotiated or imposed more than 300 quotas. It is correct that 300 new quotas have been imposed and should be helpful in curbing future import growth. However, there are two problems associated with these actions. First of all, the Administration has in many cases delayed for months putting on quotas until imports have risen to tremendously high levels, thus ensuring an import level which is very disruptive. Second, there are currently over 100 candidates for quotas which meet the market disruption criteria set out in the December 16, 1983 announcement on which the Administration has failed to act. These quota candidates represent about 500 million square yards of imports.

The Administration claims that the new textile rules of origin will have a major impact on the program. The Administration is correct in saying that these new rules of origin will make legal quota evasion more difficult, but this will have little or no impact on the overall import problem. These new rules will curb quota evasion where a country has manufacturing done in another country but uses its own quotas. The new rules will transfer production back to the original country with the impact on trade being minimal. The rules are basically designed to prevent practices aimed at circumventing quotas.

The Administration claims that it strengthened the Multi-fiber Arrangement (MFA) in 1981 and then tightened up bilateral agreements with Hong Kong, Korea and Taiwan in 1982. This is only a small part of the story. The MFA was tightened in 1981 only after very strong pressure was brough to bear on the White House by members of Congress and the domestic industry.

After renewal of the Multi-fiber Arrangement the United States did use some MFA provisions to negotiate tighter bilateral agreements with Hong Kong, Korea and Taiwan. However, in order to get tighter limits on certain products the Administration negotiated away the country limits with these countries. Failure to continue these country limits has led to an increase today of imports from Hong Kong, Korea and Taiwan of about 500 million square yards. The absence of country limits and slowness by the Administration to react to import growth in uncontrolled categories led to increases in imports from these three countries of 40 percent since 1981.

The Administration claims that 80 percent of all imports from developing country suppliers are now under quota. The Department of Commerce Major Shippers Report for April indicates that approximately 73 percent is under quota. This is down from 81 percent in 1982. It is important to realize that even with 81 percent under quota in 1982, imports since 1982 from the low cost countries increased by over 3 billion square yards, or 59 percent.

The Administration claims that additional tariff protection is provided by relatively high tariff levels on textiles and apparel. Textile and apparel tariffs are relatively higher than those on other products because of the import sensitivity which they have. These tariffs were not cut as much as others during multilateral negotiating rounds because, upon advice of the International Trade Commission, the industry was found to be severely import impacted. The current high rates reflect the judgment of the International Trade Commission (ITC) when imports were less than half of what they are today. After the increased import penetration of the last four years the ITC would today almost certainly recommend few or no tariff cuts. Finally, because of the overvalued dollar, these tariffs afford only a fraction of the protection they did when the ITC gave its advice.

Many other countries' trade barriers are far greater obstacles to trade than are U.S. tariffs. Import licensing requirements, value-added taxes and tariff rates of 100 percent or more are found in many of the major countries supplying textiles and apparel to the U.S.

U.S. MARKET CONDITIONS

The Administration claims that imports are being reduced so far this year. The 4.4. percent decline cited must be compared with a major decline in domestic shipments and production. The real value of apparel industry shipments is down 7.6 percent from a year ago while textile shipments have fallen 10.9 percent. It is important to note that the textile and apparel trade deficit so far in 1985 has been 9.4 percent higher than last year. Last year's deficit was a record $16 billion and was 13 percent of the record U.S. trade deficit.

The current pattern of imports represents a continuing increase in market penetration and a continuation of market disruption in spite of the modest import decline. It is also of interest that the import decline was centered in yarn and fabric. Through April, apparel imports were up from last year. The decline in imports is related to high inventories in the pipeline and to a sluggish domestic market. Recent analyses indicate that in the first quarter 1985 consumer offtake of apparel, at retail, was slightly below last year's first quarter.

The Administration claims that real textile shipments rose 8.3 percent during the Administration's first four years. They did not. They rose a mere 1.9 percent, and apparel industry shipments rose only 2.7 percent in real terms, not the 6.4 percent claimed. Indeed, for the 12 months ended April, 1985, combined domestic textile and apparel shipments were virtually unchanged from 1980 levels in real terms, as shown on the attached graph. Over this same period, imports increased by 100 percent from 5 billion square yards to 10 billion.

EFFECT ON CONSUMERS

The Administration's claim that consumers would pay higher prices with passage of this legislation, costing them some $14 billion a year, is theoretical and completely at odds with the results of econometric analysis by Data Resources, Inc (DRI). It is not known how the $14 billion estimate was made, but it is known that the U.S. has lost one million job opportunities because of the current import level which equates to a $40 billion loss in gross national product.

The DRI analysis goes on to show that if the bill does not pass, the growth in imports, in wiping out most of the domestic apparel chain of production by 1990, will:

Create unemployment for 1,890,000 Americans, 947,000 in the textile and apparel industries and another 943,000 in other industries because of the ripple effect.

Increase the federal budget deficit by $24 billion.

Lower consumer disposable income by $19 billion.

Lower GNP by $40 billion.

Have a minimal effect on price levels.

In short, the cost to the consumer is in NOT passing the legislation rather than in enacting it.

The Administration claims that foreign textile suppliers would reap additional windfall profits of about $2 billion because of quotas. However, no explanation is given as to how this estimate is made.

It is not likely that prices of textiles and apparel will rise as predicted by the Administration if this bill is enacted. History shows the rate of price increases in domestic textiles and apparel has always been less than U.S. inflation generally—even when textile and apparel imports were at levels far lower than they are. This is because of the intense domestic competition that has always existed among U.S. textile and apparel producers. Apparel production capabilities can expand as easily inside the U.S. as they have outside the U.S. The U.S. textile industry is currently operating at 77 percent of capacity.

Low income families include many apparel and textile workers earning $5.00 to $6.00 per hour. 947,000 of these workers will lose their jobs by 1990 unless the legislation is enacted.

The assumption that apparel imports are lower priced derives from the fact that they are produced more cheaply overseas. Research shows that there is very little difference in retail prices of imported vs. domestic apparel. The huge markup placed on imports by retailers are the reason consumers are not *now* benefiting from imported apparel and textiles.

MARGINAL EFFECT ON PRODUCTION AND EMPLOYMENT

The Administration's claim that passage of the bill will have a minimal impact on domestic production obviously relates to 1984 levels. What the legislation does is to increase domestic output by 100 percent from where it would otherwise be in 1990 if import growth continues on its present course. Without the bill, textile and apparel employment in the short space of five years will drop by more than half from current levels.

The gains in production and employment are *not* small and unemployment of 1.9 million Americans is a very high price to pay for failing to pass the bill.

RETALIATION AGAINST U.S. EXPORTS

The Administration is concerned about retaliation against U.S. exports, specifically corn, wheat, aircraft, cigarettes and tobacco. In reality, the U.S. is already being shunted aside in world demand for agricultural products, particularly cotton and wheat as a result of growth in foreign production capability and the overvalued dollar.

THE CHINA SITUATION

There have been phenomenal increases in production of most major agricultural products over the last several years and this has greatly reduced China's need for imports including grain.

According to the USDA, "This drop in agricultural imports was largely the result of decreased demand due to several years of high domestic production and excess stocks." It is expected that China will continue to increase its internal production and should be self-sufficient in wheat by the end of the decade, as it is now in cotton.

CHINA—PRODUCTION AND IMPORTS OF KEY AGRICULTURAL COMMODITIES

[MM Metric Tons—Except Cotton]

	1980–81	1983–84	Percent change
Wheat:			
Production	55.20	81.40	47
Imports	13.80	10.00	−28
Soybeans:			
Production	7.94	9.30	17
Imports	0.54	0.00	−100
Coarse Grains:			
Production	81.00	85.00	5
Imports	0.99	0.50	−50
Cotton (MM Bales):			
Production	12.40	21.30	72
Imports	3.60	0.20	−94

As countries become newly industrialized, they seek to move into higher technology production, primarily for export. Many other countries are producing goods using export or production subsidies. U.S. competition in agricultural products as well as in aircraft reflects these developments.

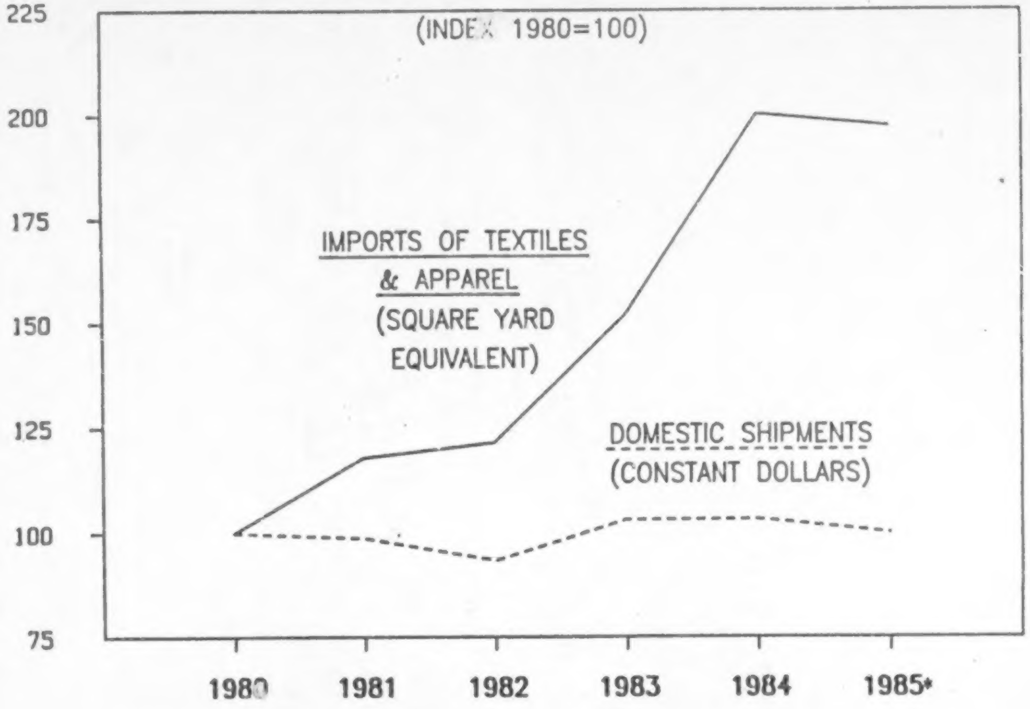
VIOLATION OF 34 U.S. BILATERAL AGREEMENTS IN THE MFA AND U.S. OBLIGATION UNDER THE MULTI-FIBER ARRANGEMENT [MFA]

The Textile and Apparel Trade Enforcement Act of 1985 is fully consistent with the objectives of the Multifiber Agreement (MFA) which are to prevent market disruption and provide for growth of developing country exports. The act concludes that there is wide spread disruption in the U.S. market because of the failure to enforce adequately the provisions of the MFA.

This bill would mandate actions similar to those taken in 1977 by the European Community (EC). The EC cut back trade from major suppliers, imposed very low growth rates and established a global concept to control key imports. When the EC took those actions no one retaliated, nor were any claims made that the EC acted inconsistently with the Multifiber Arrangement. In fact, the Multifiber Arrangement's protocol of understanding was formulated to permit the actions taken by the EC. A similar approach could be taken by the Administration.

All of the bilateral agreements need not be abrogated. There are provisions in each for an orderly termination. The Administration could also consult with each country and explain the actions mandated in the bill. The MFA expires in July, 1986 and if the U.S. decides not to participate in a renewal, MFA issues will become moot. However, in 22 of the bilateral agreement countries, the bill provides for an increase in trade of 15 percent in 1985 and a 6 percent annual growth there after (except for certain sensitive categories). Also, there is a precedent for re-negotiating agreements before they expire, as in 1979 and 1980 with Hong Kong, Korea and Taiwan.

IMPORTS HAVE DOUBLED SINCE 1980 WHILE DOMESTIC SHIPMENTS LANGUISH



* 12 months ended April.

STATEMENT OF HON. CARROLL A. CAMPBELL, JR., A REPRESENTATIVE IN CONGRESS, FROM THE STATE OF SOUTH CAROLINA

Mr. CAMPBELL. Thank you, Mr. Chairman.

Mr. Chairman, I would like to submit my statement for the record also and summarize, if I might.

Chairman GIBBONS. Certainly, without objection it is so ordered.

Mr. CAMPBELL. Mr. Chairman, I want to thank you and the members of this subcommittee for giving me the opportunity to appear today and for holding these hearings.

The bill, H.R. 1562, the Textile and Apparel Trade Enforcement Act is most important, not only to my region, but to this Nation as a whole.

Mr. Chairman, this subcommittee, as you have noted, has held several field hearings on the textile import problem over the past several months, so that I do not have to convince you how important the industry is to its 2 million employees, the economy of the Nation, and the national defense of this country. I know that you are keenly aware of it.

Nor, I hope, do I have to convince the members of this subcommittee that the textile/apparel fiber industry is in deep trouble because of imports. Indeed, its very viability is threatened. In spite of several important steps this administration has taken to tighten up enforcement of the Textile Import Program, the fact is, that the problem is greater than the solutions that have been offered, and we have to have some more help.

You have seen the efforts the industry has made to modernize, spending billions of dollars a year more on modernization for the last decade; increasing production by one-third since 1971; and doing all of that while raising prices at only half the rate of all manufactured products.

You have seen the studies showing that the consumer pays virtually the same price for comparable imported and domestic goods and the studies which demonstrate that the role that the dollar plays is a significant factor in only a small portion of the textile trade imbalance. You are well aware free trade rhetoric aside, that our trading partners routinely provide direct or indirect subsidies for their textile industries, while they seek out every avenue to bar our goods from their markets.

The question I want to pose to you today is, does Congress have a responsibility to take steps to solve the problem?

I believe the answer is yes.

You know, for many years, the main activity of Congress was handling trade matters; tariffs, and duties being a major source of revenue for the Government. Through the years, of course, that has all changed and we have delegated a major share of trade responsibility to the executive branch. That is all well and good as long as they are doing the job downtown. When the executive branch falters, however, and State Department bureaucrats worry more about foreign relations and foreign jobs, than they do about the livelihood of Americans, as has happened in the textile apparel import area, it is the legitimate duty of Congress to step in.

That is what we should do now.

We should not wait until 1990, when, according to some projections, fully 80 percent of our apparel needs will be filled by imports. We should not wait until we have lost another million jobs. We should not wait until our domestic textile/apparel/fiber industry is dead.

We should move now to pass H.R. 1562. The industry and the Nation deserve no less.

Mr. Chairman, the textile industry alone, accounts for some $45 billion of the gross national product of this country. That is more than basic metals, more than automobiles, petroleum, or refining or aerospace. Employment is shrinking. The number of firms have dropped and if we continue down this road, I do not think that we can survive.

The national defense issue is one that we should be very much aware of. We cannot defend this country if we cannot clothe this country. We have had a 60-percent surge in imports over the last 2 years and we are fighting back. We have modernized; our productivity is up; our people are the best workers in the world. But, Mr. Chairman, we need to have an even playing field and we believe that this subcommittee and this committee and this Congress are going to have to provide it.

Again, I want to thank you very much for holding these hearings and I want to take this opportunity to thank you for coming to South Carolina and for taking the effort to go out and discover firsthand what the problems are.

I wish every Member of Congress was as sensitive as you are and I thank you again.

[The prepared statement follows:]

STATEMENT OF HON. CARROLL A. CAMPBELL, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH CAROLINA

Mr. Chairman and members of the subcommittee, thank you for giving me the opportunity to appear today in support of H.R. 1562, the Textile and Apparel Trade Enforcement Act. In the interest of time, I will keep my remarks brief and submit the full text of my testimony for the Record.

Mr. Chairman, this subcommittee has held several field hearings on the textile import problem over the past several months, so I do not have to convince you how important this industry is to its 2 million employees, to the economy of this nation, and to the national defense of America.

Nor, I hope, do I have to convince you that the textile/apparel/fiber industry is in deep trouble because of imports. Indeed its very viability is threatened. In spite of several important steps this Administration has taken to tighten up enforcement of the Textile Import Program, the fact is that the problem is greater than the solutions that have been offered.

You have seen the efforts this industry has made to modernize, spending a billion or more dollars a year on modernization for the last decade, increasing production by a third since 1971, and doing all of that while raising prices at only half the rate of all manufactured products.

You have seen the studies showing that the consumer pays virtually the same price for comparable imported and domestic goods, and the ones which demonstrate that the role the dollar plays is a significant factor in only a small portion of the textile trade imbalance.

You are well aware that, free trade rhetoric aside, our trading partners routinely provide direct or indirect subsidies for their textile industry while they seek out every avenue to bar our goods from their markets.

The question I want to pose to you today is: Does Congress have a responsibility to take steps to solve the problem?

I believe the answer is yes.

You know, for many years, the main activity of the Congress was handling trade matters—tariffs and duties being a major source of revenue for the government. Through the years, of course, that has all changed and we have delegated a major share of trade responsibility to the Executive Branch. That's all well and good as long as they are doing the job downtown. When the Executive Branch falters, however, and State Department bureaucrats worry more about foreign relations and foreign jobs than they do about the livelihoods of Americans, as has happened in the textile/apparel import area, it is the legitimate duty of Congress to step in.

That's what we should do now. We should not wait until 1990 when, according to some projections, fully 80% of our apparel needs will be filled by imports. We should not wait until we have lost another million jobs. We should not wait until our domestic textile/apparel/fiber industry is dead.

We should move now to pass H.R. 1562. This industry and this nation deserve no less.

Coming as I do from such a heavy textile area, I am sure it comes as no surprise that H.R. 1562 is such a priority for me. Parochial interests aside, however, I am convinced that passage of this bill is essential for the good of the country.

The textile/apparel/fiber industry plays a major role in this nation's economy. It provides some 2 million jobs directly, and many more indirectly. Many of these people are women, minorities and unskilled individuals who have no real alternative to textile employment or the welfare roles. We are talking about one in every ten American manufacturing jobs—more than steel and automobiles combined—in facilities spread across 48 of the 50 states. The textile industry alone accounts for $45 billion of our GNP—more than basic metals, more than automobiles or petroleum refining or aerospace. It is also a generally accepted fact that, with the exception of steel and perhaps automobiles, textiles are our most important national security industry.

And the industry is in trouble. Employment is shrinking, the number of firms has decreased, rates of return are low. Still, imports continue to flood our shores, consuming an even greater share of our market. Data Resources, Inc., has forecast the further loss of almost one million textile and apparel jobs by 1990, with import market share increasing from about 50% now to 80%.

For years, the industry and concerned members of Congress have been working with the Executive Branch in an effort to bring some kind of rational control over import growth, and several important steps have been taken. As I have said, however, the problem is greater than the solutions that have been offered.

Our key international agreement, the Multifiber Arrangement, which is supposed to provide a framework for orderly trade in textiles and apparel has failed miserably, at least for America. Instituted in 1974, the MFA was intended to promote the economic development of lesser developed countries via the orderly growth of textile trade, while also limiting market disruption or the threat thereof in developed countries. Instead, we have seen consistent increases in imports culminating with a huge 60% surge over the last two years.

This is not an industry which sat on its laurels with the same 50-year-old equipment and let imports take over. It's an industry that fought back, spending more than a billion dollars a year on modernization over the last 10 years. Since 1971, production per worker hour has increased by a third and prices for textile mill products have risen at only half the rate of all manufactured products. We are talking about the most modern, productive textile industry in the world.

What all of this says to me is that the myth of free trade is just that: a myth. The litany of free trade no longer holds water, for U.S. trade policies based on that goal have left American industry in a shambles in the international marketplace and have resulted in the wholesale exportation of basic industry and American jobs.

I will grant that much of our staggering trade deficit—$123 billion in 1984 and climbing even higher this year—is due to the strength of the dollar and our budget deficit, but I submit that this is not the case with the textile trade deficit. While imports from Canada and Western Europe appear to be dollar related (and, hence, are excluded from the scope of H.R. 1562), particularly all imports of apparel and many imports of textiles and textile products have been largely unaffected by the dollar. This is because many important textile and apparel suppliers have their currency tied to the U.S. dollar and exchange rates have no impact, or are operating under managed currencies, such as the People's Republic of China.

Likewise, the argument that we must accept these job losses as the price for lower consumer prices for clothing is spurious. Recent Market Research Corporation data based on a survey of actual retail prices shows that domestic men's and boys' apparel is priced at approximately $6.68, while the similar import price is $6.63, only a 5¢ difference. In the case of women's and girls' apparel, the domestic price is actually

7¢ below the import price. The erroneousness of the price argument is brought forceably home when one looks at the many catalogs offering apparel "made in the US or imported" for the same price. In fact, retail prices are continuing at a high level, despite the strong dollar which should have resulted in lower costs for consumers as imports capture an ever greater share of our market. Experience has also shown that importing nations tend to raise prices when American competition is eliminated. Moreover, estimates of the costs of protection invariably leave out the contribution the industry makes to the Gross National Project, the balance of payments, tax revenues, reduced unemployment costs, and the intrinsic value of maintaining a basic industry.

The Textile and Apparel Trade Enforcement Act would roll back imports from the Big Five and other major exporters, while insuring that the truly developing countries have a growing share of our market. At the same time, it would give the American industry and its workers the confidence that our industry will be around into the 21st Century.

First, the measure would cover all fibers, thereby correcting a major defect in current procedure which has allowed millions of square yards of goods to enter the United States outside the limits of the MFA. The measure would set 1985 quotas at the levels where they would have been had the MFA worked as it was intended. It would then allow growth rates of one percent a year for the major exporting nations and of six percent a year for the smaller exporters. This approach fully complies with the MFA objective to allow fair and orderly growth in textile trade, while insuring truly developing nations a share of the textile market. To facilitate enforcement, the bill also mandates the establishment of a U.S. licensing program for textile and apparel imports. Western Europe and Canada, because they play by basically the same rules that the U.S. does, are exempt from these provisions, and Mexico and our Caribbean neighbors are accorded special treatment.

The United States must come to grips with the reality of the world trade situation. We must deal with the reality that many if not most other nations provide direct or indirect subsidies for their basic industries. We must deal with the reality that other countries seek to bar our imports. We must recognize that there is no free trade with controlled economies such as the People's Republic of China. In short, as a nation, we must seek a fair and equitable trade policy.

Free trade is an admirable goal, Mr. Chairman, but it is not served by the United States abandoning its largest manufacturing workforce to imports from countries which in many cases subsidize their own industries and otherwise bend or break international trade laws. The Textile and Apparel Trade Enforcement Act will insure fair textile trade consistent with our international obligations, and it deserves support.

Chairman GIBBONS. Thank you, Mr. Campbell.

STATEMENT OF HON. BUTLER DERRICK, A REPRESENTATIVE OF CONGRESS FROM THE STATE OF SOUTH CAROLINA

Mr. DERRICK. Thank you, Mr. Chairman.

I ask you now to consent that my entire statement will be put into the record.

Chairman GIBBONS. Without objection, it is so ordered.

Mr. DERRICK. Mr. Chairman, my attitude is simply this, we were elected to this Congress not to be concerned with the jobs of the Japanese, the Koreans and the Chinese, but to be concerned with the jobs of Americans.

And I am especially pleased to be here to express my full and vigorous support for the Textile and Apparel Trade Enforcement Act of 1985. Quite simply, this legislation is long overdue and we must start to move forward with it.

The textile and apparel workers of this country are experiencing some very hard times, as you saw, when you were in South Carolina. During March of 1985, textile industry employment stood at 715,000, which is the lowest since we began keeping records back in the 1930's. It is 7-percent below the 769,000 level of March 1984. Apparel industry employment is down 4 percent as of 1984. One of every eight jobs in this country is textile or textile related and something must be done to reverse the import trend.

As a representative of a major textile producing State and of a district where this industry is the largest employer, I want to impress upon you the dire need for a new trade policy. In South Carolina industries which have operated for over a half a century, in small rural communities have had to close their doors even after making substantial investments to compete with foreign imports. This pattern is occurring in communities all across the country. The textile industry has invested as much as $1.9 billion a year in capital improvements. There has been improvement in management as well, but while, it is now the most productive industry in the country, there is no way that it can compete with the tremendous growth in imports and the sophisticated and unfair export practices of the U.S. trading partners.

The administration indicated in a letter a few weeks ago, that more than 300 textile and apparel categories have been put under quota since 1980. The rate of growth of these imports is well beyond the domestic growth. For example, in Sri Lanka, manmade fiber trousers should have been called at 205 dozen, but current levels are up to 282,000 dozen. U.S. imports of the MFA controlled textiles and apparel from China increased by 17 percent in 1983, and 23 percent in 1984 to a total of 967 million square yards equivalent.

During the first 6 months of 1984 imports from MFA controlled countries accounted for 84 percent of the imports and the major four importers supplied over 60 percent of the total U.S. apparel imports in 1984. Obviously, the current system of controlled imports is not working. The European community has taken effective action under the Multi-Fiber Agreement to provide for an orderly distribution of trade. Between 1980 and 1984 imports to the European Community grew at only 6 percent while imports in the U.S. more than doubled. In spite of the devastation our domestic industries are experiencing, the administration has not exercised its authority to prevent disruption of the American economy.

Consequently, the American people are looking to the Congress for that help. The President's Economic Council forwarded a letter to the Congress expressing its opposition to this bill, in spite of the broad-based bipartisan support that this measure enjoys in both Houses and the letters of concern on our textile trade policies in support for this bill.

The administration either ignores or fails to comprehend the scope of the trade problems of this basic American industry. The President took action to limit steel and auto imports, but there has been no action to limit textile and apparel imports. There has been no support for an industry which employs more people than steel and the auto industries combined. U.S. trade officials are preparing to negotiate a renewal of the Multi-Fiber Agreement which expires next summer, however, several developing countries have already formed a coalition in opposition to its renewal. This is going to be a long lengthy process, and if the administration has not used its authority in the current MFA, there is no evidence to indicate any renewal of the MFA will be fully implemented.

This Nation cannot continue to be the greatest host for most of the world's imports. We are willing to meet our obligations in international trade, but when 75 percent of U.S. imports in one category come from Japan, and forces the second largest textile company in this country to close its operations in that category, something is very wrong.

Mr. Chairman, the textile and apparel workers of this country have not experienced the improved economy of the post-recession period of which many speak. There have been almost 60 plant closings in South Carolina since 1980. In my district, alone, more than 3,000 have been put out of work since the beginning of the year. My constituents are losing their jobs daily with no hope of reemployment.

Most of these workers have fought our wars, and paid our taxes and still believe in this great country of ours, however, many times when I visit on my return to my district they are becoming bitter and cannot understand why the administration has not tried to help.

They are not looking for a handout but an opportunity to work and compete fairly. This legislation will determine the future of this industry which has seen its market share of trade dwindle substantially. They have suffered more than enough from a confused, unstable and weak trade policy. Let us move forward with this legislation. It is urgently needed.

Mr. Chairman, I thank you very much.

Let me just add one little postscript and say that, you know, if we do not do something about the textile industry pretty shortly, we are not going to have a textile industry to do anything about.

And I understand your concern about free trade and all of that business, but you know, the administration writes us letters over here and say that they are concerned about free trade and then they put a 1,000 percent tariff on noodles. They help out Harley Davidson motorcycles and they do things with the automobile industry and they do things for the steel industry, and it just does not add up.

Thank you.

[The prepared statement follows:]

STATEMENT OF HON. BUTLER DERRICK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH CAROLINA

Mr. Chairman, Members of the Subcommittee, I am delighted to have this opportunity to appear before you today to discuss conditions in the textile and apparel industries and to express my full and vigorous support for the Textile and Apparel Trade Enforcement Act of 1985. Quite simply, this legislation is long overdue.

The textile and apparel workers of this country are experiencing some very hard times. During March 1985, textile industry employment stood at 715,000 which was the lowest since such records were first kept in 1939. It is 7% below the 769,000 level of March 1984. Apparel industry employment during this same time as 4% below March 1984 of 1,218,000.

One of every eight jobs in this country is textile or textile-related and something must be done to reverse this trend.

As a representative of a major textile producing state and of a district where this industry is the largest employer, I want to impress upon you the dire need for a new trade policy. In South Carolina, industries which have operated for over half a century in small rural communities have had to close their doors even after making substantial investments to compete with foreign imports. This pattern is occurring in communities all across the country. The textile industry has invested as much as

$1.9 billion a year in capital improvements. There has been improvement in management as well. But while it is now the most productive industry in the country, there is no way it can compete with the tremendous growth in imports and sophisticated and unfair export practices of U.S. trading partners.

This Administration indicated in a letter a few weeks ago that more than 300 textile and apparel categories have been put under quota since 1980. The rate of growth of these imports is well beyond the domestic growth. For example, Sri Lanka man-made fiber trousers should have been called at 205,000 dozen, but current levels are up to 281,000 dozen. U.S. imports of the MFA-controlled textiles and apparel from China increased by 17% in 1983 and 23% in 1984 to a total of 967 million square-yards equivalent.

During the first six months of 1984 imports from MFA controlled countries accounted for 84% of imports and the major four importers supplied over 60% of the total U.S. apparel imports in 1984. Obviously, the current system of controlled imports is not working.

The European Community has taken effective action under the Multi-Fiber Arrangement to provide for an orderly distribution of trade. Between 1980 and 1984, imports to the European Community grew at only 6% while U.S. imports more than doubled. In spite of the devastation our domestic industries are experiencing, the Administration has not exercised its authority to prevent disruption to the American economy. Consequently, the American people are looking to the Congress for help.

The President's Economic Council forwarded a letter to the Congress expressing its opposition to this bill. In spite of the broad bi-partisan support this measure enjoys in both Houses, and the letters of concern on our textile trade policy and support for this bill, the Administration either ignores or fails to comprehend the scope of the trade problems of this basic American industry.

The President took action to limit steel and auto imports, but there has been no action to limit textile and apparel imports. There has been no support for an industry which employs more people than the steel and auto industries combined.

U.S. Trade officials are preparing to negotiate renewal of the Multi-Fiber Arrangement which expires next summer. However, several developing countries have already formed a coalition in opposition to its renewal. This is going to be a long, lengthy process, and if the Administration has not used its authority in the current MFA, there is no evidence to indicate any renewal of the MFA will be fully implemented. This nation cannot continue to be the gracious host for all the world's imports. We are willing to meet our obligations in international trade, but when 75% of U.S. imports in one category come from Japan and forces the second largest textile company in this nation to close its operations in that category, something is very wrong.

Mr. Chairman, the textile and apparel workers of this country have not experienced the improved economy of the post-recession period of which many speak. There have been almost 60 plant closings in South Carolina since 1980. In my district alone, more than 3,000 have been put out of work since the beginning of this year. My constituents are losing their jobs daily with no hope of reemployment.

Most of these workers have fought our wars, paid their taxes, and still believe in this great country of ours. However, many I visit with on my return to my district are becoming very bitter and cannot understand why the Administration has not tried to help. They are not looking for a hand-out but an opportunity to work and compete fairly. This legislation will determine the future of this industry which has seen its market share of trade dwindle substantially. They have suffered more than enough from a confused, unstable and weak trade policy. Let's move forward with this legislation. It is urgently needed.

Thank you again for allowing me to appear before you today and I certainly hope you and your subcommittee will effectively respond to the many pleas you have been receiving from me, my colleagues and the American people for adoption of the Textile and Apparel Trade Enforcement Act of 1985, H.R. 1562.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, DC, June 21, 1985.

The PRESIDENT,
The White House, Washington, DC.

DEAR MR. PRESIDENT: I am disappointed that you have allowed your Economic Policy Council to oppose the Textile and Apparel Trade Enforcement Act, H.R. 1562, that has been introduced in both houses and which enjoys broad bipartisan support.

The Textile and Apparel Trade Enforcement Act seeks to provide for a global program for textile and apparel imports. It is time for sincere and effective action to be taken. You continue to allow this country to play host to the world's export market and allow foreign policy interests to take precedence over our own economic considerations. A balance of the two can surely be found. National security interests are also protected by a strong economy.

Last year, the Congress attempted to adopt legislation to address some of the unfair trading practices of exporting nations. Key provisions in this measure which would have restricted industrial targeting and natural resource subsidies were deleted from this legislation as a result of the Administration's insistence. Additionally, you have asked for unprecedented reductions in your budget proposals for the Customs Service which has responsibility for inspecting textile imports. The establishment of quotas are meaningless if they are not stringently enforced. Imports have doubled in the last four years while domestic textile and apparel shipments have increased slightly 2%.

Furthermore, Mr. President, the presumptive criteria for market disruption you issued in December 1983 has not been fully implemented. There are more than 200 categories of domestic production data which is currently available through the Department of Commerce which meet this definition. However, consultation calls to the exporting nations to negotiate quota limits have not been taken. China is the second largest supplier of cotton bed sheets to the United States, Indonesia is a major supplier of cotton sheeting and Brazil, Japan, Colombia and Indonesia export huge volumes of broadcloth and poplin cloth. As of this date no action has been taken to establish a bilateral agreement on these categories.

The Congress has allowed your Administration ample time to respond to the growing concern of American workers in the textile and apparel industry. Mr. President, I have also urged you on numerous occasions to provide some meaningful response to the import problems our domestic textile and apparel industry is experiencing. It has been more than 4½ years and plants are still closing and workers are continuing to be laid off. What you alleged to have done for the industry is obviously not working. Sixty-one textile plants and thirty-six apparel plants have closed and 46,900 workers are out of work in South Carolina. What is happening in South Carolina is occurring all across the nation. This is a critical national problem.

Mr. President, this legislation will put into law the authority granted to you under the 1981 Multifiber Arrangement. I ask that you please reconsider your position on this measure which is overwhelmingly supported by my colleagues on both sides of the aisles in the House and Senate.

With best wishes, I am

Respectfully,

BUTLER DERRICK,
Member of Congress.

STATEMENT OF HON. HOWARD COBLE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA

Mr. COBLE. Thank you, Mr. Chairman.

Mr. Chairman, I request that my full statement be entered into the record.

Chairman GIBBONS. Without objection, it will be done.

Mr. COBLE. Mr. Chairman, and members of the subcommittee, these gentlemen have accurately stated the case. If I may, Mr. Chairman, I would like to make a few brief remarks.

Chairman GIBBONS. Certainly.

Mr. COBLE. I, too, thank you all for having permitted us to appear before you today, regarding H.R. 1562 the Textile and Apparel Trade Enforcement Act of 1985.

During the 6½ months of this session of Congress, a remarkable group of Members of this body, from both sides of the aisle, has made a commitment to the survival of the fiber/textile/apparel industries of this Nation.

During the process of generating support for H.R. 1562, you have heard all the documentation, the statistics, and the economic debate on every aspect of this bill. We have heard facts and figures from Korea, Taiwan, Hong Kong, and numerous other importers.

Mr. Chairman, I would ask you and other members of this panel to consider some of the places that do not get mentioned very frequently in these halls. Places like Saxapahaw, Glen Raven, Stokesdale, and Thomasville must sound unfamiliar to you. But I can assure you that these vital communities in the Sixth District of North Carolina are part of the solid foundation of America. From these and many other small towns across the State and this textile belt, for that matter, have come the textile products that have clothed our Nation for decades. For generation after generation thousands of families have proudly produced one of the three necessities of life. They have done so without the greedy intrusion of organized labor. They have worked tirelessly for an honest wage where, in many instances, there was not tremendous opportunity for advancement.

Blacks have worked by the side of whites and women have worked beside men. This tradition of service, these jobs and these communities are all threatened by forces far removed from North Carolina. In short, the real threat stems from the distorted belief that free enterprise means that Americans buy freely from others, but those same sellers are somehow permitted to write their own trading rules.

If no other purpose is served by the textile and apparel bill, perhaps it will reaffirm the simple principle that free trade if it can exist at all outside of economic textbooks must indeed, be a two-way street.

We often hear that foreign governments subsidize their own exporting industries and if we fail to reduce the unbounded growth of imported apparels, we will be sacrificing our own workers to subsidize these same foreign industries.

When a small town textile mill closes, Mr. Chairman, and members, everyone loses; the grocer, the barber, the paperboy, and every merchant suffers if they survive at all.

Local governments simultaneously see decreased revenues and increased demands for essential services. Women and minorities who comprise a substantial part of the textile and apparel work force, languish in unemployment.

Mr. Chairman, my purpose today is to remind you all, the members of this subcommittee, that the textile and apparel bill is not only about quotas and percentages, it is about fairness and people.

And Mr. Chairman, not unlike Mr. Campbell, I would like to thank you. I do not believe that you touched into my district, but I know that you did visit textile plants in North Carolina, and if you ever get time, we would be happy to have you in the Sixth District as well.

Thank you, Mr. Chairman, and members.

Chairman **Gibbons**. Thank you.

I appreciate all of you coming before as today. First let me say I want to express my personal appreciation to you for the hospitality and the graciousness and the thoroughness with which each of you conducted a part of this investigation in your own congressional district. I know it put a particular stress upon you. I am very aware of that. Congressman Hefner is not with us today. I am sure he would be with us if he could. I went through a part of his district on a very hot day very similar to this, and I hope I didn't contribute to his illness, but it was hot and it was rough and we climbed a lot of stairs. I look back now and I worry about it. So when you talk to him in the hospital, tell him I am thinking about him.

Mr. **Derrick**. Mr. Chairman, he sends word from his sick bed.

Chairman **Gibbons**. I know. [Laughter.]

It was very hot and Bill and I had a meeting there in Kannapolis that must have had over 1,000 people in it. It was not hot because they had turned off the air conditioning either; there was no air conditioning in that poor building and it was tough. I have worried about that ever since I heard that Bill was ill.

I will address my questions to all of you so if any of you want to answer or if all of you want to answer, it would be fine with me.

One of the main stated purposes of the textile bill is to achieve the objectives of the multifiber arrangement, but as I look over your bill, there are many provisions of that bill that are contrary to the multifiber arrangement. Yet many Members of Congress have told me, "Oh, I introduced that just to enforce the multifiber arrangement."

Now, I could go into these items that are contrary to the multifiber arrangement but I think you all recognize as authors of that bill that there are some parts of it that are contrary.

First of all, the multifiber arrangement does not permit unilateral action except for a 1-year term. Furthermore, the multifiber arrangement requires consultation which we have not done that I am aware of.

Are you trying to get rid of the multifiber arrangement or are you trying to change the multifiber arrangement unilaterally? What do you really want to accomplish by this bill? I know you want to protect the U.S. market. We can agree to that.

But let us concentrate on this bill versus the provisions of the multifiber arrangement to which we are a party?

Mr. **Jenkins**. Well, first of all, Mr. Chairman, if I might address that question initially. I think with the action of the EC, first of all, and we had a protocol there that established a change as far as the MFA was concerned.

Now, I believe that gives ample room within the framework of MFA without violating it to provide for the provisions of this bill. We believe that a part of the stated purpose of the MFA is to provide a mechanism for an orderly market in textile and apparel.

That is a stated purpose. And, if that stated purpose is to prevent tremendous surges in imports, then we think that the protocol, as was used by the European Community, and the MFA gives ample room to do exactly what we are doing in this bill.

Chairman **Gibbons**. Let me interject there, and perhaps I ought to put this letter in the record at this point and I would ask unanimous consent to do so. It is a letter addressed to me dated June 27, 1985, by a body representing 28 of the trading partners of the United States, I think all of whom are members of the MFA. That would be a very substantial majority.

They encourage me to actively oppose your bill. So I think while you, Mr. Jenkins, say you are not going outside the MFA, 28 of our trading partners that are in the MFA, and there are only 43 as I recall, in it, have signed a letter asking me to actively oppose it because they think it violates the MFA.

Without objection, I will put that and all of the accompanying material in the record just so we will have it here.

Mr. **Jenkins**. That does not really surprise me, Mr. Chairman.

Chairman **Gibbons**. Well, it does not surprise me either.

[Laughter.]

[The information follows:]

THE SECRETARY OF THE TREASURY
WASHINGTON

June 19, 1985

Dear Congressman Gibbons:

On behalf of the Administration, we wish to register opposition to S. 680 (H.R. 1562), which would significantly roll back imports of textile and apparel products regardless of whether such imports cause damage to U.S. producers. If enacted, this legislation would impose a very high cost on U.S. consumers, invite retaliation against U.S. exports, spur inflation, violate our international obligations, and provide the domestic textile and apparel industry an unprecedented level of protection.

This Administration remains deeply concerned about the conditions facing the domestic textile and apparel industry and its workers. While we believe that a free trade policy will provide, in the long run, the best opportunity for economic growth, we recognize that a degree of special protection has been necessary to permit the textile and apparel industry to compete with foreign producers. The more than 300 quotas we have established since 1981 and the textile rules of origin put in place in April of this year to make quota evasion more difficult are just two examples of our efforts on behalf of the American textile and apparel industry. In addition, this domestic industry benefits from relatively high tariff levels: an average of 22.3 percent, compared with an average of less than 5.0 percent for all other industries.

We now have approximately 80 percent of all imports from low-cost suppliers under quota and the substantial import growth experienced during the past two years has been halted. In fact, textile and apparel imports declined by 4.4 percent during the first four months of 1985 when compared with the first four months of 1984. The decline is even more pronounced when one excludes imports from the developed countries, which the proposed legislation would exempt at the insistence of the U.S. textile and apparel industry.

During the first four years of this Administration, domestic textile and apparel industry shipments increased by 7 percent in 1972 constant dollars. Notwithstanding the cyclical nature of the textile and apparel market, we are confident that our industry will continue to benefit from the unprecedented measures the Administration has taken to assist domestic producers.

20 85

We do not believe that the proposed legislation is necessary to maintain a strong, viable domestic textile and apparel industry. Indeed, the level of protection contemplated in the bill is not only contrary to the free-market principles which have made our economy the envy of the world, but would adversely affect every citizen in the United States because of higher consumer costs. Preliminary estimates suggest that the legislation would result in a net loss to the U.S. economy of about $2 billion. The proposed legislation would hit low-income families particularly hard.

The proposed legislation would undoubtedly cause affected countries to retaliate to the detriment of our exporters, especially those in our agricultural sector. U.S. exports to the twelve suppliers that would be most immediately affected by substantial import restrictions under S. 680 (H.R. 1562) totalled more than $33 billion in 1984.

Not least, the proposed legislation is inconsistent with the international Multifiber Arrangement (MFA) negotiated under the GATT to govern trade in textiles and apparel, and thus would result in the abrogation of the 34 bilateral textile and apparel agreements we have negotiated with our trading partners.

In the best interests of our country, we urge you to oppose S. 680 (H.R. 1562). Attached is additional information you may find helpful as you consider this matter.

Sincerely,

George P. Shultz
George P. Shultz

James A. Baker III
James A. Baker III
Chairman Pro Tempore
Economic Policy Council

Malcolm Baldrige
Malcolm Baldrige

Bill Brock
William E. Brock

Michael B. Smith
Michael B. Smith

Attachments

Fact Sheet

Implications of the Textile Quota Bill

Administration's Actions to Help the U.S. Industry

- o The Administration has been and remains deeply concerned with conditions in the U.S. textile and apparel industry. We have acted forcefully and consistently to protect the legitimate interests of American firms and workers in that industry from disruptive imports.

- o To permit the industry to compete with foreign producers, we have:

  - Negotiated or imposed more than 300 quotas;

  - Tightened Customs' programs against quota fraud and circumvention;

  - Developed textile rules of origin, in the face of intense international concern, which have made legal quota evasion more difficult;

  - Added more products to the program resulting in the inclusion of man-made fiber luggage imports in the restraint program;

  - Strengthened the Multifiber Arrangement during its 1981 extension negotiations and in 1982 renegotiated the "Big Three" agreements with significant limit cutbacks and reduced growth and flexibility rates for import-sensitive products; and

  - Supported passage of the Textile Fibers Identification Act.

- o Approximately eighty percent of all imports from developing country suppliers are now under quotas. Additional protection is provided by tariff levels on textiles and apparel that average 22.3 percent, compared to an average tariff of less than 5.0 percent for all other industries.

U.S. Market Conditions

- o Import growth has been slowed, so that during the first four months of 1985, textile and apparel imports declined by 4.4 percent.

- The proposed legislation is not needed to maintain a strong U.S. textile and apparel industry. In the first four years of this Administration, U.S. textile industry shipments increased by 8.3 percent, and apparel industry shipments by 6.4 percent, in constant 1972 dollars.

Impact of Proposed Legislation

- The effects of the legislation, were it to become law, would be damaging to both the U.S. economy and our international economic interests.
- The bill mandates an extreme rollback of U.S. textile imports. Compared with 1984, import levels would be reduced by nearly 40 percent for the major suppliers.
- The cutback would be particularly severe for imports from some of the developing countries: 90 percent for Indonesia, 81 percent for Brazil, and 64 percent for Thailand.

Effect on Consumers: Higher Prices

- The bill would raise the costs to American consumers of textiles and apparel an estimated $14 billion per year.
- The biggest beneficiaries would be foreign textile suppliers who would reap additional windfall profits of about $2 billion because of the quotas.
- Prices of textiles and apparel are likely to rise by at least 10 percent or more.
- U.S. families would thus have to spend considerably more to purchase textile and apparel goods. Low income families would be hit particularly hard, since the bill's greatest impact would be on lower priced imports.

Marginal Effect on Domestic Production and Employment

- Gains in domestic production and employment from the bill would be small, a maximum of four to five percent over present levels.
- These small gains would come at a very high price to U.S. consumers.

- Retaliation Against U.S. Exports

  Such a severely restrictive trade act by the U.S. would almost certainly lead to retaliation against U.S. exports by the affected textile suppliers. In 1984, our exports to these countries totalled $33 billion.

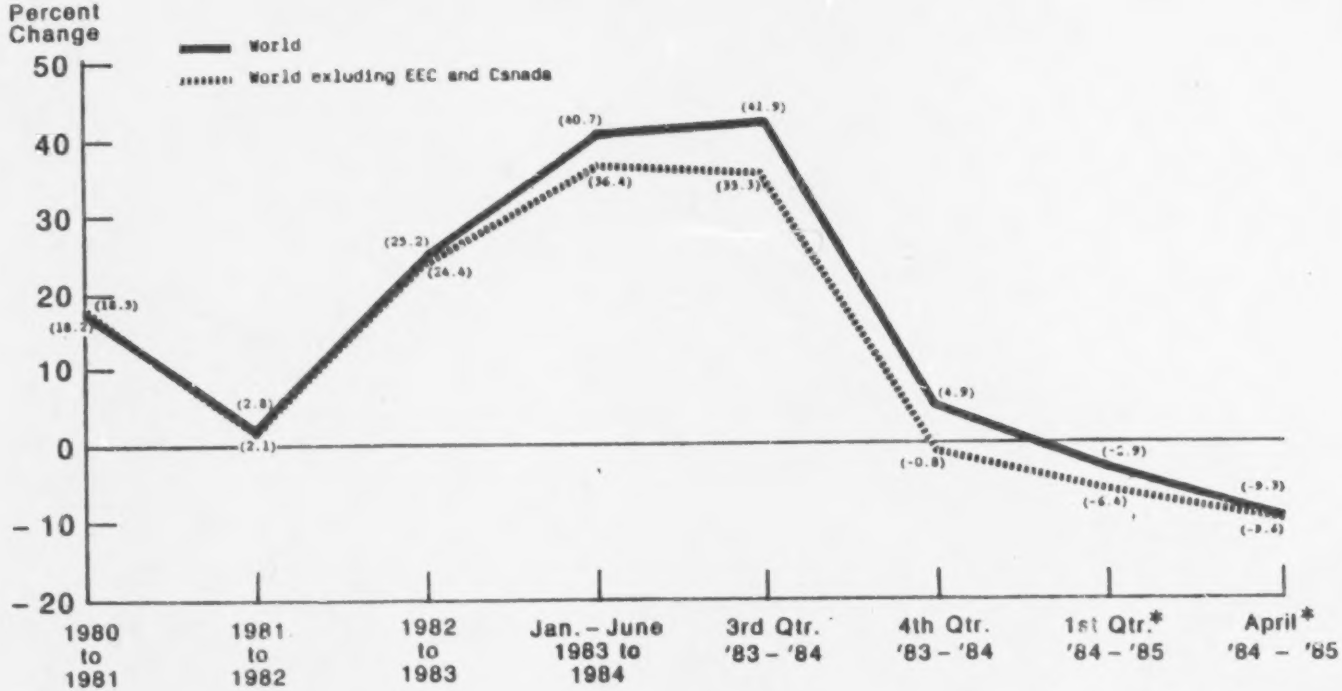
  Among the U.S. products that would be likely targets of retaliation would be:

  - corn and wheat ($5.1 billion in 1984 exports to the 12 major textile supplier countries);
  - aircraft (nearly $3 billion);
  - cigarettes and tobacco ($750 million).

- Violation of 34 U.S. Bilateral Agreements and U.S. Obligation under the Multifiber Agreement (MFA):

  - The bill would mandate the unilateral imposition of quotas at levels well below those currently in effect under 34 bilateral agreements we have with other countries. It would thus abrogate those agreements.
  - Under the MFA, import quotas can be imposed only after negotiations have been undertaken to reach agreements to deal with disruptive imports. The proposed legislation is purely unilateral, and violates this fundamental principle of the MFA.

Rate of Increase (Decrease) of U.S. Textile and Apparel Imports



Source: U.S. Department of Commerce Data

*Data includes man made-fiber flatgoods, handbags and luggage

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Ways and Means
Subcommittee on Trade

JUL 1 1985

MISION PERMANENTE DE COLOMBIA
ANTE LA OFICINA DE LAS NACIONES UNIDAS
Y LOS ORGANISMOS INTERNACIONALES
GINEBRA

27 June 1985

Dear Representative Gibbons,

I am writing to you on behalf of the Programme of Cooperation Among Developing Countries, Exporters of Textiles and Clothing, concerning the bill "Textiles and Apparel Trade Enforcement Act of 1985", introduced into U.S. Congress in March of this year. As you are well aware, this bill attempts to lay the basis for a more restrictive U.S. textile and apparel trade policy vis-à-vis developing country exporters.

As a body representing twenty-eight trading partners of the United States [1/] we are very concerned about the support the bill has received in Congress. We urge you, as a key member of Congress and in your capacity as Chairman of the Sub-Committee on Trade of the House Ways and Means Committee to actively oppose this legislation. In this context, we urge you to give utmost consideration to the strong appeal made by the U.S. Administration to members of Congress to oppose this bill.

We have taken the liberty of enclosing with this letter an aide-mémoire on the bill, which is being sent to other members of Congress. It emphasizes that the rationale for the bill suffers from serious factual inconsistencies as well as from misconceptions about the effect of imports on U.S. textiles and apparel industries and their role in the U.S. trade deficit. The data presented by the bill's sponsors are not consistent with those published by U.S. Government offices or with those publicly cited by Administration officials responsible for textiles and apparel. Thus, it is doubtful as to whether the bill will prevent the perceived disruption in the U.S. textile and apparel market. Yet it would incur into considerable cost to the U.S. economy, by taxing consumers and export industries, and by adding a significant administrative burden to an already large "textile" bureaucracy. As the targets of the proposed import restrictions, we developing country trading partners would see our import capacity significantly reduced, which would result in fewer U.S. exports to us. This would adversely affect our capacity to repay our debts, most of which are owed to U.S. banks.

./..

Representative Sam M. Gibbons of Florida
The U.S. House of Representatives
Rm. 2204
Washington, DC 20515
USA

[1/] Argentina, Bangladesh, Brazil, China, Colombia, Dominican Republic, Egypt, El Salvador, Guatemala, Hong Kong, India, Indonesia, Jamaica, Republic of Korea, Macao, Malaysia, Maldive Islands, Mexico, Pakistan, Peru, Philippines, Romania, Singapore, Sri Lanka, Thailand, Turkey, Uruguay and Yugoslavia.

MISION PERMANENTE DE COLOMBIA
ANTE LA OFICINA DE LAS NACIONES UNIDAS
Y LOS ORGANISMOS INTERNACIONALES
GINEBRA

Moreover, the proposed legislation violates U.S. multilateral and bilateral obligations under the Multi-fibre Arrangement as well as other trade agreements and commitments entered into by the U.S. Government. And by officially introducing the element of discrimination in a key sector of trade, this piece of legislation would undermine the present open multilateral trading system.

Thank you for your attention.

Felipe Jaramillo
Ambassador of Colombia
Chairman of the Informal Group of
Developing Countries,
Exporters of Textiles and Clothing

Programme of Cooperation Among Developing Countries
Exporters of Textiles and Clothing

AIDE-MEMOIRE
on the Proposed Legislation in US Congress
"Textile and Apparel Trade Enforcement Act of 1985"

This note analyzes the arguments put forward by the sponsors of the proposed legislation, the "Textile and Apparel Trade Enforcement Act of 1985" S. 680 and outlines the probable consequences of the bill for trade and trade policy.

The rationale underlying the bill contains serious factual inconsistencies and misconceptions about the impact of textile and apparel imports on domestic industry. Thus it is doubtful that it will achieve its objective of preventing perceived disruption to US textile and apparel industries. Yet it will incur considerable costs to the U.S. economy as well as to developing country economies, which will experience serious cutbacks in their capacity to import and to repay their debts. The repercussions on trade policy would be no less severe, as the bill would amount to an abrogation of US commitments under the Multi-fibre Arrangement and other trade agreements.

The main argument for more restrictive import controls lies with the perceived damage to domestic industries--i.e. large-scale closing of plants and job losses--caused by increased import penetration combined with limited growth of the domestic market. The bill's sponsors relate the average annual growth rate of 19 percent in imports and the 1 percent growth rate of the domestic market between 1980 and 1984 to such damage. Moreover, they argue that such restrictions on imports are necessary to contain the trade deficit in textiles and apparel which they claim constitutes a significant portion of the overall merchandise deficit. In this context, we would like to put forward the following:

a. The 1 per cent growth rate referred to in the bill significantly understates the strong growth in consumer demand from 1980 to 1984. US Department of Commerce data indicate that consumer spending on apparel grew on average 8 per cent per year, or 5.5 per cent when adjusted for inflation, during this period.

b. Data on production, wage earnings, and profits would be useful in assessing the situation of the two domestic industries, but the bill's sponsors do not proffer any. Evidence suggests, however, that during the period considered by the bill the expansion of consumer demand also benefitted wage earners and domestic producers in the United States. From US Department of Labour data it can be inferred that, despite the decline in employment, earnings of workers actually increased by 2.5 per cent in the US textile industry and by 3.5 per cent in the apparel industry on average per year between 1980 and 1984. Furthermore, US Department of Commerce data indicate an average annual increase of 12 per cent in after-tax profits for the US textile industry during the same period (no data are available for profits in the apparel industry).

c. As for job losses, US Department of Labour statistics show that the number of textiles and apparel jobs actually recovered in 1984 from 1983 as a whole, although it remained somewhat lower than the level for 1980. Moreover, it needs to be emphasized that, as in other manufacturing sectors, productivity gains brought about by technological advances, rather than imports, have been primarily responsible for declining employment in these two industries. The bill itself points to the impressive gains in labour productivity made in these two sectors, in textiles more so than in apparel. It is telling that labour-shedding in textiles has been much greater than in apparel, averaging 3 percent per year versus one percent year from 1980 to 1984. However, the reverse should have been the case had imports been the main culprit behind job loss, as import penetration in apparel has been much higher and more rapid than in textiles.

d. The bill frequently highlights plant closings and jobs losses in the less competitive textiles and clothing industry branches without acknowledging the firms entering and jobs created in other more competitive sectors. This oversight ignores the dynamic nature of competition.

e. The substantial increase in the U.S. trade deficit in textiles and apparel from 1983 to 1984 must be seen against the perspective of a very much larger increase in the overall merchandise trade deficit during the same period, which reached US $128 billion in 1984. This increase was caused primarily by the strong dollar, the faster growth of the US economy relative to the rest of the world, and reduced exports to debt-ridden developing countries. Moreover, four-fifths of the increase in the overall merchandise deficit was accounted for by the increase in the trade deficit in manufactures other than in textiles and clothing, the bulk of which was with developed trading partners. Furthermore, the share of textiles and clothing in the overall merchandise trade deficit actually declined during this period, from 14 percent in 1983 to 13 percent in 1984. It is doubtful whether industry-specific solutions will solve problems that are caused in large part by factors affecting the economy as a whole.

Another major argument of the bill's sponsors for further restrictions on imports has been that those now in place are not effective. To the contrary, textile and clothing imports from all sources peaked in the third quarter of 1984 and declined thereafter. Moreover, the brunt of the decline was borne by the restricted suppliers, as a result of the intensification of discriminatory restrictions against developing countries. Imports from MFA developing countries during the period October 1984 to March 1985 declined 4 percent as compared with the same period in the preceding year, while imports from non-restrained suppliers--i.e. the EEC, EFTA, and Canada--increased 35 percent.

From this can be seen the probable consequences of the bill on trade and trade policy:

a. The bill would significantly raise the cost of protection to consumers-- who already bear a heavy burden as a result of restrictions in place-- and would hurt US textile and apparel firms that depend on imports as intermediate inputs.

b. The bill would hurt US export industries, in particular those such as agriculture, machinery, and even textiles that export heavily to developing countries. Firstly, the bill would have an inflationary impact on US production which would undercut US competitiveness by raising the price of US goods on world markets. Secondly, the bill would further curtail the purchasing power of developing country customers, who are a bigger market for US merchandise exports than Japan and Western Europe combined.

c. Conversely, the bill would reduce exports from and therefore the foreign exchange earnings of developing suppliers, aggravating their debt and balance-of-payments problems and setting back development prospects particularly for the poorest among them.

d. Yet the resulting gap in supply in the U.S. market would likely be filled by the non-restrained developed countries rather than by domestic producers, particularly given the strong dollar. Here we refer to the evidence of trade diversion cited earlier in the context of the effectiveness of MFA restrictions.

e. It would encourage US textile and apparel firms to invest billions of extra dollars in more textile machinery, which may improve competitiveness but which will accelerate job loss and depress wages in these sectors, which are already low compared to the manufacturing average.

f. The import licensing system advocated by the bill would pose a considerable administrative burden, further raising prices for consumers.

The implications for US trade relations and trade policy are no less serious. Contrary to what the bill's sponsors claim, it would effectively abrogate US bilateral and multilateral obligations under the Multifibre Arrangement--already a derogation from the GATT rules--as well as trade agreements and commitments taken under GATT rules and principles. In fact, by stepping over the fundamental most-favoured-nation principle underlying all basic trade agreements and commitments, this bill would cause irreparable damage to the multilateral trading system.

No. 1018 /2528

asean

ASEAN WASHINGTON COMMITTEE
ROYAL THAI EMBASSY
WASHINGTON, D.C. 20008

July 3, 1985

Dear Congressman Gibbons,

1. We the Ambassadors of the member countries of the Association of Southeast Asian Nations (ASEAN)* wish to register the ASEAN governments' grave concern over the legislation entitled "The Textile and Apparel Trade Enforcement Act of 1985" currently pending before the United States Congress which would drastically roll back exports of clothing and textiles to the U.S. from a vast number of exporting countries. We believe very strongly that this legislation, if enacted, is bound to have serious and widespread repercussions on the ASEAN countries and a host of other textile-exporting developing countries.

2. The unilateral approach to imposition of import restrictions suggested in the proposed legislation is wholly inconsistent with U.S. international commitments under the Multi-Fiber Arrangement and the bilateral agreements under the MFA which seek to provide some measure of assurance and certainty for signatory countries in the textiles trade. In particular, the legislation is not in conformity with the provisions of the MFA for it seeks to introduce a regressive method of calculating base level and sets lower growth rates than those permitted under the MFA.

* (ASEAN comprises the nations of Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand)

3. It has long been recognized that cooperation between exporting countries and importing countries through consultations and negotiations is fundamental to the operations of the MFA. The exporting countries have agreed to forego their potential market right in exchange for an export controlled system so as to provide the much needed certainty to their exporters. Thus, the import licensing control proposed in the legislation runs counter to the letter and spirit of the MFA.

4. It is an acknowledged fact that the MFA itself is a derogation of GATT principles and puts severe restrictions on exports from developing countries in one of the few products in which they are able to maximize their comparative advantage and export cost efficiently to the U.S. and other developed countries. The legislation in effect would further impair the ability of the developing countries, including the ASEAN countries, in increasing their export earnings in order to meet their development needs and to enable them to contribute to the expansion of the global economy. If the developing countries' textile exports are curtailed, these countries' ability to purchase goods from the industrialized countries certainly will be affected. It will also affect the developing countries' efforts to rely less on foreign aid and assistance.

5. The proposed legislation is clearly discriminatory. It curtails the textile exports of the developing countries and yet allows the textile exports of Canada and the European Community to grow freely. Such treatment totally contradicts the time-honoured most-favored-nation principle of GATT.

6. Collectively, the ASEAN countries' textile exports to the U.S. account for less than 10% of the U.S. total imports. Precisely because the ASEAN countries are new entrants and relatively small suppliers, they stand to be penalized and suffer the most from the way the provisions in the legislation are structured. In contrast, the European Community and Canada collectively accounted for 15.6% of U.S. imports in 1984. More seriously, their textile exports grew by 73.5% in the period between 1983-84. It would therefore hardly be fair that the proposed legislation seeks to punish smaller exporters with weaker economies while letting bigger exporters with stronger economies off the hook.

7. The ASEAN countries confront the problems of falling commodity prices, growing debt service and the pressing need to create new jobs for the continually expanding work force. In tackling this problem, the ASEAN countries are strenuously attempting to diversify their economies into manufacturing, including textiles and apparel. At a time when ASEAN's development strategy based on free trade and free enterprise, is beginning to bear fruit, it finds itself in danger of being denied reasonable access to the U.S. markets. The debilitating consequences that the legislation could have on the ASEAN economies thus cannot be over emphasized.

8. In terms of ASEAN-U.S. relationship, the ASEAN countries, collectively, rank as the U.S.' fifth largest trading partner with the volume of two-way trade reaching 26.3 billion dollars in 1984. Needless to say, the ASEAN

countries' continued economic progress would open up new opportunities for the expansion of mutually beneficial trade and economic relationship with the U.S. The ASEAN countries are also recognized by the U.S. as a pragmatic and moderating influence in international economic relationships and fora.

On the security front, ASEAN is widely acknowledged as a vital force for peace and stability in Southeast Asia and the larger Pacific region where the U.S. and its allies have ever-growing vital economic and security interests. Therefore, the imposition of any additional trade restrictions such as the proposed legislation which threatens seriously to undermine the ASEAN countries' political and economic strength would certainly not be in the broader economic and security interests of the U.S.

9. The proposed legislation goes against the grain of the comparative advantage principle. In so doing, it will unfairly penalize cost efficient exporters and U.S. consumers. The net result for the U.S. consumers would be higher retail prices and narrower choice of textile and apparel products. More significant, other domestic industries would have to bear the costs resulting from an economic misallocation of capital and human resources. In addition, U.S. export industries and farmers would be particularly hurt by reduced demand in overseas markets, because of the developing countries' reduced purchasing power, not to mention the risk of possible retaliatory action.

10. In view of these considerations, we therefore wish to reiterate our grave and legitimate concerns over the serious consequences that the passage of the legislation would have on the ASEAN countries and other exporting countries in the developing world as well as the long-term interests of the U.S. itself.

11. We fully recognize that consideration of this and other legislation restricting imports to the U.S. are taking place against the backdrop of economic difficulties in certain sectors of the U.S. economy. Nonetheless, we are equally convinced that the U.S. Congress will continue to exercise leadership of a high order in the promotion of an open and freer international trading system.

Rest assured that the ASEAN countries stand ready to cooperate fully with the U.S. in seeking to expand and liberalize world trade for the benefit of every country.

Yours sincerely,

Kasem S. Kasemsri
Ambassador of Thailand
Chairman ASEAN Washington Committee

Dato' Lew Sip Hon
Ambassador of Malaysia

Pengiran Haji Idriss
Ambassador of the State of Brunei Darussalem

Leonides T. Caday
Charge d'Affairs
Embassy of the Philippines

A. Hasnan Habib
Ambassador of the Republic of Indonesia

Jack E.K. Choo
Charge d'Affairs
Embassy of Singapore

بسم الله الرحمن الرحيم

Ambassador

No.Com-1/85(Vol.II)

EMBASSY OF THE
PEOPLE'S REPUBLIC OF BANGLADESH
Washington, D.C.

18 July 1985.

Dear Mr.Chairman,

I wish to convey my grateful thanks for affording me the opportunity to call on you the other day. Your words of understanding and compassion for Bangladesh have been very encouraging for us.

As desired, I am enclosing herewith a note on the Bangladesh's case for unhindered garment exports to U.S.A. This is for your very kind consideration and for such action as you may deem appropriate.

Once again I would like to thank you very much.

With warmest personal regards,

Yours sincerely,

(A.Z.M.Obaidullah Khan)

Encl: As above.

The Honourable Sam Gibbons
Chairman
House Sub-Committee on Trade
Room 2204
Rayburn Building
Washington D.C.20515.

RECEIVED
JUL 19 1985
Ways and Means
Subcommittee on Trade

BANGLADESH'S CASE FOR UNHINDERED GARMENT EXPORTS TO U.S.A.

Bangladesh is a land of 97 million people waging a a productive struggle against poverty in 54,000 square miles. Inspite of repeated natural disasters a modest green revolution is going on in the country and food production has grown at more than 3.5% a year over the last five years.Yet with more and more labour force coming into stream every year, Bangladesh needs to expand its economic base with labour-intensive and export -oriented industries. At the moment the rate of unemployment is 30%, the per capita income, $126. In 1983 the balance of payment deficit was 13.6% of its G.N.P.

2. Bangladesh developed its garments manufacturing industry in the early eighties and entered the export market only since 1982. In 1983-84 Bangladesh exported $ 28 million worth of garments. The 1984-85 target is $84 million. The major garment products include shirts, trousers, jackets and knit goods. Although there is ample capacity for expansion in this area, Bangladesh wants to diversify the range of its garment exports. The labour-intensive textile apparel industry is entirely funded and managed by the private sector.

3. Now Bangladesh is suffering from its success as her burgeoning garment industry is under direct threats of quota restrictions contemplated by the EEC and the U.S.A., Bangladesh's largest buyers of garments. The sudden increase in the imports of cheap shirts and jackets from Bangladesh although very marginal when compared to the overall U.S. import, has become a source of concern to domestic manufacturers in EEC and USA. U.S. Government views that certain categories of garment import from Bangladesh is disrupting the U.S. market and has recently imposed quotas on two of its categories of textile exports . In 1983, Bangladesh's 334 U.S. exports comprised 1.43% of all U.S. imports of that category, in 1984, 2.55%. Like-wise, in 1983, Bangladesh exported .59% of the total U.S. imports of 340, in 1984, 2.76%.

4. The U.S. administration has consistently advised Bangladesh to promote and encourage investments by private enterprises as a strategy for self-sustaining economic development. The imposition

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of U.S. curb on Bangladesh's textile imports appears to be in sharp conflict with the policy prescriptions mentioned above. Such protectionist measure would cause serious set-back to Bangladesh's development efforts.

5. The U.S. has a stake in Bangladesh's well-being. Stability in that nation is a U.S. concern. Economic improvement will, of course, contribute to social and political stability. The fiscal year 1985 budget for U.S. aid to Bangladesh- for development, food, and disaster relief- is $176.4 million, and there is an unfortunate possibility for a further cut down-wards. The U.S. assistance has stagnated at this level for last two years and there is an overall decline in the Official Development Assistance (ODA) for Bangladesh. There is also an asymmetry of U.S. - Bangladesh trade with nearly a 2 :1 ratio in the U.S. favour. Prominent among U.S. exports to Bangladesh are cereal, cotton and used clothing.

6. On the one hand, then, the U.S. through its foreign aid, is helping Bangladesh, to its feet, while on the other hand, through import quotas, is cutting it at its knees. This inconsistency needs to be resolved in a manner beneficial to both nations.

7. Bangladesh earned her independence late and entered global garment trade only recently. Naturally, her base level of garment export is very low compared to those of major exporting countries such as Hongkong, China, Korea, Singapore and even Sri Lanka. Bangladesh should not be made to suffer for its late entry into this labour-intensive export-oriented industry.

8. On following grounds Bangladesh's case for exemption from any quota operation on her garment exports to USA may be considered:

(i) Bangladesh has entered the U.S. apparel market only a couple of years ago. Being a least LDC with vast unemployment this labour-intensive export-oriented industry deserves some special dispensation from developed countries as it is still virtually in a nascent stage.

(ii) Bangladesh as one of the world's poorest nations has been striving hard to promote export-oriented industries in its bid to increasingly substitute

CONTD.P-3..

trade for aid as a strategy for economic development. The imposition of quota on its exports is bound to frustrate its development efforts through trade.

(iii) Bangladesh's share of total U.S. textile and textile products is still relatively very small - less than .25%. Bangladesh's volume of exports in this sector has not yet attained a conspicuous level in a relative sense to warrant quota restriction.

(iv) The imposition of quotas will lead to massive unemployment in a new industry which currently employs about 200,000 workers directly or indirectly- 90 percent of whom are women- and which roughly accounts for over 8% of the country's export earnings. The number of workers is expected to double by the middle of this year. Any shrinkage of garments export could, in turn, unleash serious social unrest by aggravating the unemployment situation.

(v) Imposition of further quota by the USA which is one of the largest buyers of her garments would give a severe jolt to the garments sector. Bangladesh deserves a reasonable time horizon to diversify the development of its textile industry. The proposed quotas need therefore, be deferred if cannot be avoided altogether so as to allow a reasonable time period to Bangladesh to plan the growth of its garment industry in a careful and systematic manner.

THE EMBASSY OF THE PEOPLE'S REPUBLIC OF CHINA
2300 Connecticut Avenue, N.W.
Washington, D.C. 20008

RECEIVED
JUL 16 1985
Ways and Means
Subcommittee on Trade

July 11, 1985

Honorable Congressman:

My Government wishes to express its great concern with the Textile and Apparel Trade Enforcement Act of 1985 (S. 680/ H.R. 1562) currently pending before the United States Congress. This legislation violates both the China-US Textile Agreement and the Agreement on Trade Relations between our two countries, as well as the Multifiber Arrangement. If enacted, the legislation would strike a severe blow to China's textile exports and China's ability to earn foreign exchange.

The imposition of quotas on imports of textiles and apparel from China under this legislation would result in a reduction in the maximum allowable imports from China during 1985 of 433 million square yards equivalent from actual imports from China in 1984, a cutback of 56 percent. The damage to China under this bill with respect to specific products of importance to China would be even greater. The legislation would cut back China's trade in 8 categories by over 90 percent and China's trade in another 15 categories by over 80 percent. Overall, these cutbacks would result in a loss to China's economy and foreign exchange of over half a billion dollars per year.

By basing quotas on 1980, the provisions of the bill particularly discriminate against China because the United States did not provide most favored nation treatment to China until

February 1, 1980, which severely inhibited the development of China-US trade, including textile and apparel trade, until that time.

The legislation would also impose quantitative restrictions on all other categories not subject to specific limits under the Agreement, and on silk, linen and ramie products not covered by the Agreement or the MFA, and that would preclude development in China of commercially viable industries in these product sectors and clearly violate the China-US Textile Agreement and the MFA.

In addition, the legislation would allow annual growth of only one percent on all products from China whether or not currently restrained, contrary to growth rates set forth in the Agreement.

These drastic cutbacks in trade from China and limits on annual growth would also clearly violate paragraph 16 of the China-US textile Agreement which states that neither country shall act to restrain the trade in textile products covered by the Agreement except in accordance with the terms of the Agreement.

While imposing quantitative restrictions on all textile and apparel products from China, the legislation exempts Canada and members of the European Economic Community from its quota coverage. This clearly violates Paragraph 6 of the MFA which requires that developing countries receive more favorable terms than developed countries. This also clearly violates Article 2 of the Agreement on Trade Relations between our two countries which requires non-discriminatory treatment.

The drastic reduction in China's textile and apparel trade which would occur should this legislation enter into effect would severely jeopardize trade relations between our two countries.

Principal imports by China from the United States recently include aircraft, locomotives, computers, wheat, fertilizers, plastic resins, other chemicals, man-made fibers and yarns, and other products ranging from scientific instruments to leather. China's imports from the United States of these and other products grew during 1984 by over 37 percent to 3 billion US dollars.

China's textiles and apparel are its most important export products accounting for 38 percent of China's total shipments to the United States during the past year. As such, the impact on China's economy and foreign exchange earnings resulting from a minimum 56 percent cutback in this trade would inevitably affect China's importations from the United States across a wide range of products.

Since 1972, China has had a large adverse balance in the bilateral trade with the United States. A matter of important principle under the Sino-US Trade Agreement is the provision of favorable conditions by the United States to facilitate access for Chinese exports. In addition, this also relates directly to the ability of China to pay for its imports from the United States, and to China's ability to earn the foreign exchange necessary to develop the trade with the United States on healthy and long term basis.

China and the United States, as the largest developing country and the largest developed country, each has its own economic advantages, thus providing a great potential for an exchange in many fields. If both sides are willing to make necessary effort, the prospects for Sino-US economic and technical exchange, cooperation and trade are surely very bright.

We sincerely hope that you will share China's concern regarding the dangers of this legislation and, as an influential member of the US Congress, will do whatever in your power to hold back this bill.

Yours sincerely,

韩叙

Han Xu

Ambassador of the People's
Republic of China to the United
States of America

AMBASSADOR OF FINLAND

Washington, D.C., July 1, 1985

The Honorable
Sam Gibbons
Chairman
Subcommittee on Trade
Ways and Means Committee
2204 RHOB
House of Representatives
Washington, D.C. 20515

JUL 9 1985

Dear Mr. Gibbons,

The Textile and Apparel Trade Enforcement Act of 1985 is currently under consideration by your Subcommittee on Trade. The prospect of this bill being enacted is of considerable concern to my government. We feel it would seriously hamper the prospects of successfully negotiating a new MFA. An unfortunate additional consequence for US-Finnish trade is that the proposed restrictions would apply to Finland and other Nordic countries, but not to the EC or Canada.

Please find enclosed, for your information, a copy of a memorandum that we, together with representatives of the Embassies of Sweden and Norway, have recently transmitted to the Executive Branch.

Yours sincerely,

Richard Müller
Ambassador of Finland

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JUL -9 [illegible]
Ways and Means
Subcommittee on Trade

AIDE MEMOIRE

The Nordic Countries Finland, Norway and Sweden have with great concern taken note of the two bills entitled "Textile and Apparel Trade Enforcement Act 1985" recently introduced in the US Congress aiming at imposing new restrictions in the field of international trade in textiles.

Unfortunately these bills are introduced at a time when negotiations are about to start on further arrangements in the field of textile trade after the expiry of the present MFA Agreement. At the same time preparations for a possible new GATT round are under way.

The Nordic Countries warmly support all efforts to strengthen and to improve confidence in international regulations concerning trade in textiles. Consequently difficulties experienced by importing countries call for multilateral solutions while unilateral actions without consultations with other partners can only bring difficulties for general endeavours to improve the multilateral trading system.

Apart from introducing new trade restrictions these bills also contain a strong discriminatory element which would directly affect the traditionally free trade flows between the United States and the Nordic Countries. One aspect of this discrimination is the fact that the restrictions would be applied to the Nordic Countries but not the EC or Canada. The Nordic Countries strongly feel, that neither the structure, the volume nor any other aspect of their textile trade with the United States justify such an unequel treatment.

These are the main reasons and justifications for Nordic Countries to join those many other countries which already have expressed their deep concern about the two bills in question, as well as their possible consequences to the future of international textile trade.

Washington, D.C., June 18, 1985

RECEIVED
JUL 18 1985
Ways and Means
Subcommittee on Trade

EMBASSY OF THE REPUBLIC OF INDONESIA
WASHINGTON, D.C. 20036

July 12, 1985

The Honorable Sam M. Gibbons
U.S. House of Representatives
Washington,D.C. 20515

Dear Congressman Gibbons:

I have the honor to convey to you a letter from the Minister of Trade of the Republic of Indonesia, Mr. Rachmat Saleh, which reads as follows:

"Dear Congressman Gibbons:

I have the honor of transmitting to you on behalf of the Government of the Republic of Indonesia its deep concern regarding the possible enactment of the proposed Textile and Apparel Trade Enforcement Act of 1985 known as the Jenkins Bill.
Our concerns are based upon the following:

1. The bill if enacted would have a devastating impact on the Indonesian economy where the textile industry plays a very important role in local employment and in generating foreign exchange. One study indicates that it could reduce Indonesia's 1984 textile exports to the United States by about 90% or plus/minus US$200 millions.

2. The Bill would abrogate our Bilateral Textile Agreement just extended and violate the obligations of the United States under The Multifiber Arrangement ("MFA") which sets wholly different standards as to the impact of imports upon an importing country's domestic market before that nation may impose restrictions.

3. Indonesia, as well as other nations who are trading partners of the United States, would experience tremendous domestic pressure to take countermeasures.

We would be without any argument that such restrictions should be imposed.
The result would be a reduction of the existing trade between Indonesia and the United States and the introduction of an unnecessary and avoidable strain on the relations between our two Governments. It would also create a very unfortunate environment for the parties to undertake to negotiate an extension of the MFA or any further liberalizing of trade under GATT.

4. In addition to the foregoing objections and concerns, the Government of the Republic of Indonesia finds that the exemptions of the EEC countries, Canada, Mexico and The Carribean Nations from the Bill's standards raises a serious question as to how the United States views its relations with ASEAN countries as compared with those nations that are part of what is sometimes called the Western World. It suggests a double standard in international trade determined by geographical affinity and to that extend a violation of fundamental principles of international law.

Accept, Mr. Gibbons, the renewed assurances of my highest consideration.

Sincerely yours,

Rachmat Saleh
Minister of Trade
Republic of Indonesia".

Please accept, Mr. Gibbons, the renewed assurances of my highest consideration.

Sincerely yours,

A. Hasnan Habib
Ambassador

EMBASSY OF SWEDEN
THE AMBASSADOR

Washington, D.C., June 24, 1985

RECEIVED
JUN 27 [illegible]
Ways and Means
Subcommittee on Trade

The Honorable
Sam Gibbons
Chairman
Subcommittee on Trade
Ways and Means Committee
2204 RHOB
House of Representatives
Washington, D.C. 20515

Dear Mr. Gibbons:

A piece of legislation currently under consideration by your Subcommittee on Trade is,of course, the "Textile and Apparel Trade Enforcement Act of 1985". The prospect of this bill being enacted is of considerable concern to my government. We feel it would seriously hamper the prospects of successfully negotiating a new MFA. An unfortunate additional consequence for US-Swedish trade is that the proposed restrictions would apply to Sweden and other Nordic countries, but not to the EC or Canada.

Enclosed is, for your information, a copy of a memorandum that we, together with representatives of the Embassies of Finland and Norway, have transmitted to the Executive Branch.

Yours sincerely,

W. Wachtmeister

JUN 25 1985

600 NEW HAMPSHIRE AVENUE, NW, SUITE 1200, WASHINGTON, D.C. 20037 TEL (202) 298-3500

MEMORANDUM

On March 19 , 1985, Congressman Jenkins and numerous members of the congressional textile caucus introduced "The Textile and Apparel Trade Enforcement Act of 1985" which would establish quotas on imports of all textiles, apparel, textile products and man-made fibers except for products from Canada and the EC.

The Government of Switzerland recognizes the difficult economic situation - imputable to a large extent to the strong position of the U.S. currency - with which the U.S. textile and apparel industry is confronted and understands the legitimate concerns for an effective enforcement of the agreements the U.S. concluded with numerous countries in the framework of the Multifibre Arrangement of the GATT. For this reason Switzerland did not object in principle to the recent amendments of the American rules of origin by the U.S. Customs, designed to avoid circumventions of these agreements, which put additional administrative burdens on exports of textiles and textile products to the United States.

However, the proposed legislation raises serious and strong objections on the part of the Swiss authorities. It casts an unnecessary and counterproductive threat to the traditionally smooth bilateral trade relations between the United States and Switzerland,which are based on the fundamental principles of non-discrimination and most-favoured-nation treatment and are working to the mutual benefit of both countries. Not only would the bill introduce restrictions which cannot be justified materially in the case of Switzerland but it would also mark a serious and unprecedented departure from the principle of non-discrimination, putting Swiss manufacturers on an important disadvantage against their direct competitors from EC countries.

In 1984 Switzerland's export of textile products to the United States amounted to 61 Million Dollars and accounted only for 0.23 % of total U.S. imports. Textiles and textile products imported from Switzerland into the United States consist furthermore of high priced specialties and exclusivities as reflected in the very high average price of Swiss exports to the U.S. Thus, Swiss textile imports into the United States have not, neither with respect to prices nor with regard to quantities, a disruptive effect on the U.S. textiles and textile products markets. They are in most areas not even in direct competition with U.S. production and are thus not threatening domestic manufacturers.

A discriminatory treatment of the Swiss textile industry cannot be justified on the grounds of protectionist aspects of Swiss trade policy either. Switzerland is one of the few countries imposing no restrictions on textile imports at all, which forced Swiss textile industry to undergo an early and painful restructuring process. U.S. producers and exporters of textiles and textile products were able to take advantage of this liberal policy which remains in the interest of both countries as the following facts and figures clearly demonstrate:

- The trade in textiles and textile products (including cotton) between the Unites States and Switzerland was in 1984 almost balanced with roughly 61 Million Dollars Swiss exports to the U.S. against 60 Million Dollars U.S. shipments to Switzerland.

- Despite the unfavourable exchange-rate situation the growth rate of overall U.S. exports in textiles (including cotton) to Switzerland was considerably higher last year than the increase of Swiss exports to the U.S. (39 against 29 per cent on a value basis).

- One third of the cotton used by the Swiss textile industry is produced in the United States and Swiss imports of U.S. cotton increased last year to 34 Million Dollars up from 19 Million Dollars in 1983. The Swiss manufacturers are selling high standing textile products made of U.S.-cotton all over the world, thus contributing to the development of markets for U.S. cotton.

- In the sensitive area of apparel, the U.S. showed a positive trade balance with Switzerland until 1983. Under the influence of the strong Dollar, this pattern was reversed in 1984 with 3.2 Million Dollars U.S. exports to against 5.8 Million Dollars imports from Switzerland. Taking into account the large difference in the size of the market the per capita U.S. shipments to Switzerland remain nevertheless far more important than Swiss exports to the U.S.

Thus Switzerland's market is completely open to U.S. manufactures and we firmly expect a reciprocal treatment furthering the mutual American-Swiss interests in the bilateral trade in textiles and textile products.

Considering the broad and exemplary access to the Swiss market for U.S. textile products which is at least equal to the one the EC countries provide to U.S. producers, the Government of Switzerland could not accept an arbitrary discriminatory treatment of Swiss manufactures. Such a deliberate discrimination would be a blow to the Swiss textile industry which accepts open competition under the condition that at least industrialized countries keep their market equally open to Swiss products. It would be all the more obvious and negatively perceived as manufactures from EC-countries and Switzerland are competing in the same product segments in the U.S. market. Therefore, a discriminatory treatment could lead directly or through a preference by U.S. customers for non-affected EC suppliers to commercially unwarranted changes in trade patterns.Last but not least, an unjustifiable discrimination of Switzerland would have detrimental repercussions on the public opinion and negatively affect American-Swiss relations beyond the field of trade. In this respect it is important to recall that the textile industry employs 8 percent of the Swiss industrial work force and takes the third rank among Swiss exports industries. Thus, it occupies still an important position in the Swiss economy although its share of total world production is small.

In view of the fact that

- a disruptive effect of Swiss exports on the Unites States textiles and textile products market can be exluded,

- Switzerland grants an unlimited and extremely favourable market access to U.S. textiles and textile products and is entitled to reciprocal treatment,

- the interests in textile trade between both countries are well balanced,

- an unprecedented discrimination of Switzerland with respect to the member countries of the EC cannot be justified by unequal treatment of U.S. products by Switzerland, the Swiss Government expects that a discriminatory treatment of Switzerland, which would not be compatible with the important concept of fairness in trade traditionally upheld by the United States, will be avoided. It is confident that solutions might be found which will permit to take into account mutual interests, safeguarding and furthering the long established harmonious trading relations between our two countries.

Washington, D.C., June 12, 1985

EMBASSY OF THE REPUBLIC OF INDONESIA
WASHINGTON, D C 20036

July 12, 1985

The Honorable Dan Rostenkowski
U.S. House of Representatives
Washington,D.C. 20515

Dear Congressman Rostenkowski:

I have the honor to convey to you a letter from the Minister of Trade of the Republic of Indonesia, Mr. Rachmat Saleh, which reads as follows:

"Dear Congressman Rostenkowski:

I have the honor of transmitting to you on behalf of the Government of the Republic of Indonesia its deep concern regarding the possible enactment of the proposed Textile and Apparel Trade Enforcement Act of 1985 known as the Jenkins Bill.

Our concerns are based upon the following:

1. The bill if enacted would have a devastating impact on the Indonesian economy where the textile industry plays a very important role in local employment and in generating foreign exchange. One study indicates that it could reduce Indonesia's 1984 textile exports to the United States by about 90% or plus/minus US$200 millions.

2. The Bill would abrogate our Bilateral Textile Agreement just extended and violate the obligations of the United States under The Multifiber Arrangement ("MFA") which sets wholly different standards as to the impact of imports upon an importing country's domestic market before that nation may impose restrictions.

3. Indonesia, as well as other nations who are trading partners of the United States, would experience tremendous domestic pressure to take countermeasures.

We would be without any argument that such restrictions should be imposed.
The result would be a reduction of the existing trade between Indonesia and the United States and the introduction of an unnecessary and avoidable strain on the relations between our two Governments. It would also create a very unfortunate environment for the parties to undertake to negotiate an extension of the MFA or any further liberalizing of trade under GATT.

4. In addition to the foregoing objections and concerns, the Government of the Republic of Indonesia finds that the exemptions of the EEC countries, Canada, Mexico and The Carribean Nations from the Bill's standards raises a serious question as to how the United States views its relations with ASEAN countries as compared with those nations that are part of what is sometimes called the Western World. It suggests a double standard in international trade determined by geographical affinity and to that extend a violation of fundamental principles of international law.

Accept, Mr. Rostenkowski, the renewed assurances of my highest consideration.

Sincerely yours,

Rachmat Saleh
Minister of Trade
Republic of Indonesia".

Please accept, Mr. Rostenkowski, the renewed assurances of my highest consideration.

Sincerely yours,

A. Hasnan Habib
Ambassador

The American Chamber of Commerce in Hong Kong

GAGE MCAFEE
PRESIDENT

May 24, 1985

MAY 29 1985

The Honorable Sam Gibbons
House Office Building
Washington, D.C. 20515
U.S.A.

Dear Mr. Gibbons:

Re: Textile and Apparel Trade Enforcement Act 1985

The American Chamber of Commerce in Hong Kong wishes to express its deep concern over the proposed legislation by representatives Jenkins and Thurmond (H.R. 1562 and S. 680). At a time when the U.S. is working hard to convince its trading partners to open their markets to U.S. goods and services, it seems inappropriate for the U.S. to close its own markets. While American businessmen in Asia (an area which now accounts for in excess of ~~US$155~~ billion of trade) are perhaps most aware of the problem of market access in certain Asian countries, we still believe that legislation such as the Jenkins Bill is not the approach that should be taken and will, in the end, be counterproductive and damaging to the world's trading system. We strongly urge you not to support this legislation.

Sincerely,

Gage McAfee

RECEIVED
MAY 3 [illegible]
Ways and Means
Subcommittee on Trade

1030 Swire House, Hong Kong Telephone 5-260165 Telex 83664 AMCC HX Cable AMCHAM

The Hong Kong General Chamber of Commerce

Our Ref: JDM:743
8th July, 1985

Mr. Don Rostenkowski,
Chairman,
House Ways & Means Committee
1106 Longsworth House Office Building,
The Capitol,
Washington DC 20510,
U. S. A.

Dear Sir,

Textile and Apparel Trade Enforcement Act 1985

Established in 1861, the Hong Kong General Chamber of Commerce, is the oldest trade organisation in Hong Kong. Its 2600 member companies represent a wide spectrum of functional interests and include over 800 companies engaged in manufacturing and exporting textile products.

The Chamber has considered the Textile and Apparel Trade Enforcement Act 1985 proposed by Senator Thurmond (S. 680) and Congressman Jenkins (HR 1562) and has asked me to convey the following views to you and your colleagues on the Committee considering this proposed legislation.

The Chamber finds this Bill totally objectionable in spirit and content. Its ramifications go far beyond the field of textiles. It would not only destroy the Arrangement Regarding International Trade in Textiles (MFA) but would also do irreparable damage to the non-discriminatory principle which is the cornerstone of the General Agreement on Tariffs and Trade.

It would be tantamount to the United States taking the law into its own hands and destroying the delicate balance in international trade and the fragile institutions governing it, achieved after decades of negotiation and compromise in which the United States has played such a pivotal part. The inevitable conclusion would be that the United States, long recognised in its leading role in world trade and the world economy, would be seen to have abdicated its leadership and abandoned the liberal trade ideals that it had long cherished. It is not difficult to predict a trade war as a result of the enactment of this Bill with disastrous consequences for all concerned including the United States.

United Centre 22nd Floor 95 Queensway Hong Kong G.P.O. Box 852 Tel: 5-299229 Tlx: 83535 TRIND HX Cable: CHAMBERCOM
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Ironically, careful study by the Retail Industry Trade Action Coalition (R.I.T.A.C.) of the financial burden on the U.S. economy as a result of the application of this blatantly protectionist Bill suggests that to "save" 36,000 jobs in the textiles industry of the United States at an annual cost of over US$2 billion to U.S. consumers, i.e. US$66,000 per job, 58,000 jobs in the American retail trade will be lost. These figures illustrate the real cost of protectionism to the U.S. economy.

Hong Kong is an open economy, heavily dependent on external trade. Exports of textiles products account for over 40% of its exports and the United States is Hong Kong's largest market. This textile trade is therefore of crucial importance to the economy, more so proportionately than is the case with any other territory in the world.

Already, Hong Kong has suffered seriously from the continued and expanding restrictions which now cover over 80% of all Hong Kong's textiles exports to the world, with extremely small permitted annual growth within negotiated quotas (only 0.5-1.5% in quantitative terms). It is significant that the increase in textiles imports into the United States in recent years has been due in the main to substantial increases in imports from competitive developed countries. There is therefore hardly any justification for the proposition that Hong Kong should suffer the savage cutbacks envisaged by the Jenkins Bill with serious damage to its textiles industry and its economy as a whole.

Hong Kong has an outstanding record of conformity with the provisions of all textile restraint agreements entered into during the last 25 years. This is well known to the United States Government. Textile restrictions, however, are particularly unfair to Hong Kong which maintains a completely open import market. There are no non-tariff restrictions on imports of manufactured goods or services from the United States. There are no tariff restrictions except for a handful of revenue raising items.

It is difficult to believe that the United States, with its preeminence as the leader in promoting international liberal trading policy and practice will vote the Jenkins Bill into law and apply its discriminatory provisions against a large number of friendly developing (and possibly developed) countries provoking and encouraging international retaliation and the real risk of a devastating trade war. Nevertheless the Chamber believes that it is timely and appropriate to write to you to express its serious concern and to ask you to reject both the concept and provisions of this discriminatory and potentially extremely damaging legislation.

Yours sincerely,

J.D. McGregor
Director

JDM:ts

Mr. **Jenkins**. Since this is the only marketplace basically for apparel products that is left, it does not surprise me that a large number of other countries would take that position.

But it is strange to me that when similar action was taken in 1977 by the European Community, when they cut back trade from all of their major suppliers, when they, in fact, in 1977 commenced a global quota for the EC and it has worked. Their imports are about a third of what ours are today.

Now, I did not hear the hew and cry. I have not read about it. Maybe it was there, when the EC decided to do that. And I am simply saying that they took action because they believed that this industry was important to the EC.

We believe that we have the same right to protect the identical industry.

Chairman **Gibbons**. Under the MFA?

Mr. **Jenkins**. Yes, sir. No one could dispute the fact that we now have and have had for the past 4 years a very disruptive marketplace in textile and apparel. It is my understanding the MFA was created to prevent that disruption and at the same time to make sure that the developing nations have an opportunity to get into a marketplace and not be totally shut out.

Now, as far as your question of what our intent is on the MFA, I would be very honest with the chairman. I know it is not working. I have real problems. I cannot give you a definitive answer as to what the members of the Textile Caucus or members of the industry will take on that particular issue since it is to be renewed next year.

But I can tell you that as far as I am concerned, the MFA simply is not working today.

Chairman **Gibbons**. Well, we are about to begin some negotiations to extend the MFA. Do you want the MFA extended?

Mr. **Jenkins**. Well, I would think that I probably would in the absence of any other or as compared to nothing. But, sometime even then individually I have questions because we could take unilateral action immediately.

Chairman **Gibbons**. Well, I am not wedded to the MFA as obviously you are not wedded to it either. I do not pretend to be an expert on its formation because I was not active in that area at that time and did not follow it closely. Frankly I am not real acquainted with the 1977 action of the European Community and how that affected the MFA, but I will look into all of those issues since you raised them.

I am concerned, though, that with 28 of the 43 MFA signatories involved in a letter, not only have they written this letter but they have contacted me and I am sure they have contacted others, saying that they are very upset with the threatened passage of this legislation.

I believe that they would be entitled under the GATT to retaliate against us. Of course, they would not retaliate through textiles trade. They would retaliate in some of the other export industries that America has, and we still have about $220 billion worth of exports right now. I worry about what would happen in those export areas as we move unilaterally in this particular import area.

Let me say, you have convinced me there is a problem, a serious problem, and there is serious suffering going on, and I would like to find a remedy for it. But I am afraid that by perhaps adopting your proposal that we are going not only to have violated the MFA but we are going to have violated the GATT under which the MFA is based.

Then when we do, the ceiling begins to come down on us and on all of our other export industries. That is a concern of mine. I would like to help the textile industry but I do not want to make all of America less well off by helping the textile and garment industry. That is the problem.

Now, have you got any suggestions as to how we can proceed in this matter without having some kind of retaliatory action under the GATT?

Mr. JENKINS. Well, first of all——

Chairman GIBBONS. Or under MFA really.

Mr. JENKINS. The MFA itself is an abrogation of the GATT.

Chairman GIBBONS. Yes, it is. It is a licensed exception to GATT.

Mr. JENKINS. So there is a recognition under GATT that the apparel, textile as recognized by the creation of the MFA is in a special category.

Chairman GIBBONS. Then your position is that we can unilaterally disavow that agreement, start on a new one, and not subject ourselves to the disciplines of GATT?

Mr. JENKINS. First of all, no one can give anyone any assurances that there will be no retaliation. I recognize that. Let me say this. There are 300,000 manufacturing plants in this country. There are 10 percent of them engaged in exports, 30,000.

Thirty-four percent of all the exports that we have from this Nation are by less than 50 companies out of those 300,000 manufacturing plants, and half of the exports that we are sending are coming back to us in a finished product.

So if we cannot compete in our own marketplace, how in the world can we compete in another marketplace? We have got to have an industrial base. If we simply say that we are going to end up deciding that we cannot compete in the industrial sector and we shall depend upon the service sector, I truly believe that that is the path to destruction.

I was somewhat amazed at those figures that I just quoted. I read them last week from the STR report itself, submitted by the retail federation as to the amount of exports by a handful of companies.

I cannot assure the chairman that there will be no retaliation. I simply believe this. I do not believe these people are buying our wheat or our poultry because they want to help our trade balance. I believe they are buying them because they need the product. That is the general scenario in the world marketplace.

I do not believe that they are buying to try to help us out.

Chairman GIBBONS. Let me correct a couple of statements I made here before we go any further. Then I will come to you, Mr. Campbell.

There are 43 countries that are members of the MFA, 42 plus the United States. Thirty-four countries have bilateral textile agreements with the United States under the MFA. That is a large portion of the Earth's population right there, a large portion of our trading partners no matter how you look at them.

Mr. Campbell.

Mr. CAMPBELL. Mr. Chairman, this does not necessarily mean we have to abrogate all of our bilateral agreements. We, as you know, have a way to provide for orderly termination. Now, we could go ahead and consult with the countries as we went into this, explaining the actions, and obviously the growth rate that is allowed under this legislation which is a 6 percent level for many of the developing countries would be adequate within which to negotiate an overall growth rate. Particularly we could deal with sensitive categories.

There is nothing in the legislation that absolutely ties you down to each category or that requires that each bilateral be abrogated. And it does provide the opportunity to go ahead and consult. And for that reason I believe that we would be able to stay within at least the framework of the MFA.

The one thing that Mr. Jenkins said, and I think it is important, is that the MFA is supposed to provide that framework for orderly trade in textiles and apparel. And it failed. And it has failed because of such items as were mentioned by Mr. Jenkins, the action by the European Community. It has failed because of subsidized goods. It has failed because of transshipped goods. It has failed because of the nontariff barriers that have been placed against some of our products going into other countries. And it is time that we move forward rather aggressively before it is too late, and in the effort to stay within the framework of the MFA and to try to work for an orderly process which we understood the MFA to espouse, this legislation evolved.

And we believe that it certainly is a strong point, at least from which to embark on a correction of what has happened. And I certainly hope that we would look at it that way.

Chairman GIBBONS. I am not so worried about how we look at it. I am worried about how our competitors who have certain rights under the General Agreement on Tariffs and Trade are going to respond to it.

If they respond to it in a retaliatory fashion, Mr. Campbell, we would put in jeopardy every export industry in South Carolina and North Carolina and Georgia, Florida, Alabama, and all the others. And there are considerable industries that export from our areas. I cannot give you the exact names of the businesses right now, but there are lots of them. And that concerns me because that means we would have a loss of jobs in other sectors plus all the confusion of not having accomplished anything anyway.

Mr. CAMPBELL. Well, Mr. Chairman, let me point out that, of course, as I am sure you are aware, in this bill—we exclude Canada, we exclude the European Community, the Caribbean area, Mexico. We are particularly aiming the legislation at the areas where we have had the problems of transshipped goods, subsidized goods. And quite frankly, we feel we have the flexibility to consult with those nations with whom we have bilateral agreements, and to let them recognize that for one time the United States means business. And not that we are going to, with our diplomatic negotiations with them, come away telling them we are going to do everything for you and nothing for our people. And we feel that this bill might just give those in any administration or in the service the necessary backbone to stand up and say we cannot go any further because this is where our law leaves us today.

And we do think that we can work within MFA with the backing of such legislation as this.

Chairman **Gibbons**. Now, Mr. Campbell, I do not want to argue with you, but the President's Cabinet sent us a letter, which you received, and let me ask you if you agree with these statements.

There is a factsheet attached to this letter and it says, "To permit the industry to compete with foreign producers we have," and then says, "negotiated or imposed more than 300 quotas," and that is 300 on top of another 300 which means we have got 600 quotas on apparel and textiles.

Now, I cannot say that is doing nothing for the industry. The administration has tightened the Customs program to prevent circumvention of quotas. There was a problem with circumvention. There may still be some going on, but there is not any that I am aware of today because the administration cracked down on it. They developed new rules of origin that are very strict and very tough and which they got a lot of criticism over. These were tough moves by this administration. They added more products to the program. They have done some renegotiating of bilateral agreements, and they have supported the Textile and Apparel Identification Act.

These are not all just doing nothing by the current administration. I am not here to defend them. But that is what they claim to have done.

Do you think those actions have been effective or——

Mr. **Campbell**. Mr. Chairman, let me say that in the testimony I gave I tried to pay tribute to the administration's actions by pointing out that they had done things. But what they had done were not enough to meet the problem that we face.

Yes; they did put in put in the new rules of origin and, yes, they did back my colleague, Mr. Derrick's efforts on the labeling. And, yes, they have issued calls. But the 300 is cumulative. A lot of those calls were issued late in 1 year and expired the beginning of the next year. And a lot of them did not last.

So I would say that, yes, they can add up and say we had 300 calls but did the calls stay in effect? Were they then negotiated down? Were they like print cloth put in effect over a period of time, and then negotiated with a growth rate back to a level which exceeded it? All that did take place and, yes, they made an effort.

But, Mr. Chairman, in spite of the good faith of some people there, we still run into problems and the effort has not been enough to solve the problem that we face.

Chairman **Gibbons**. Well, I want to question this panel some more, but I have far exceeded my time.

Mr. Derrick, do you want to say something? Go ahead.

Mr. **Derrick**. Let me just make a couple of observations if I may. You know, sure, our legislation may be a little broader than the MAF, and we are trying to get it some directions that we think need to be made. And, you know, sure, the administration supported this laboring bill, but they were a follower and not a leader. I mean they were in the stands clapping, but that is about it.

And the fact of the matter is that they have not, even though they have negotiated these quotas, that, by and large, they have not been enforced.

You know, you brought up the matter of retaliation. And, you know, I think that is something that we need to be concerned about. But, you know, retaliation is something that we are living with on a daily basis now. I mean it is reality today. I mean after all the European Common Market sets strict limits on textiles without any adverse effect. I mean we have been worried about China for years and years and years. They are now a net exporter of cotton, soon to be a net exporter of grain. And they are going to do it just like everybody else, they are going to buy where they can get it the cheapest.

So, you know, I think that that is something that is raised that we give too much concern to.

Chairman **Gibbons**. Could you tell me how the European Community's bilateral agreements are different from ours? That is the first time I have heard this issue raised. I am not familiar with the European Community situation.

Mr. **Derrick**. Well, I am not familiar with it either, all the intricacies of it. Maybe if some members do—but all I know is that they did put a strict limit on textiles. And as I pointed out in my remarks earlier, that while our imports have doubled over the last several years, theirs have gone up about 6 percent, and I would assume that is due because of the strict limitation that they put on it.

But as far as—mavbe Mr. Jenkins could counter.

Mr. **Jenkins**. Mr. Chairman, it is my understanding that when the MFA was renegotiated in, I believe, 1977, they had a problem with the tremendous surge of imports in textiles and apparel. They went to a European Community global concept as far as percentage increase in imports from wherever they may be. And that was established at roughly 6 percent which is mentioned in MFA itself. The average rate over the past 4 years, I believe, has been about 6 percent; they have maintained that. Ours is above 19 percent for the past 4 years.

So I think that they were able to do this. And I want to comment on one other thing that you brought up because I think it is important.

The administration has issued a lot of calls in the last couple of years. They have waited until the amount of imports has reached such high levels before they issued the calls that they were practically meaningless for all the damage that had already been accumulated over the past 4 years. Those calls were made at high levels that they had hopefully peaked toward, and the damage continues to be done even though those calls were issued.

So there is a real significance in the timing, as I understand it, of the call. Obviously, if you see the problem beginning and issue a call, if you see that you are getting into trouble and do it quickly enough, you can stave off some of the difficulty.

Chairman **Gibbons**. Now, you are not saying the administration is plotting against this industry, are you?

Mr. **Jenkins**. Well, let me say this. I am saying that the administration is not helping this industry. I am not saying that they are plotting against this industry.

Chairman **Gibbons**. I did not mean to put you in the middle between these two Democrats, Mr. Campbell, but just——

Mr. **Campbell**. No, sir, Mr. Chairman. But your point is a good point. Because it is a known fact that those in the administration concerned with textiles on many instances have made recommendations for calls only to be thwarted by a process which has tremendous input from the State Department. And we find the government working against the government in many instances, and that is most frustrating.

Chairman **Gibbons**. Well, I could go on for hours with you gentlemen. I am going to come back to you if you do not mind.

Mr. Frenzel.

Mr. **Frenzel**. Thank you, Mr. Chairman.

I am getting flooded out by the sweating water pots. I'm not going home in a huff after hearing this testimony. [Laughter.]

I want to thank the panel of our colleagues for giving us some excellent food for thought. I hope that each of you understand that there is another side to the question.

The chairman just talked about quota calls, and you indicated the administration was not doing much good. There are a lot of people in the country that think the relationship between the quota callers and the industry is incestuous. And recall the recent flannel sheet quota call where the penetration of the market has reached the outrageously high figure of three-tenths of 1 percent. It precipitated a call which, I guess, was later revoked. But I think that is something that leads people on the other side to think that the calling is pretty overactive. Six hundred calls in how long, Mr. Chairman?

Chairman **Gibbons**. Well, 300 since they have come into office.

Mr. **Frenzel**. That is a lot of quota calls. And when you put that with country of origin, you really think they are not working for you out there.

Well, let me not ask that question. Let me ask another one.

We talk about employment and the wiping out of towns. We do not understand that when a town is dependent on a single industry or mill, it is disastrous when it closes. It is quite different than just one shop closing along main street or a big shopping center.

On the other hand, the figures given to us by the Department of Commerce indicate that total employment in textile mill products is down by about 210,000 in the last 10 years, which is an average of less than 3 percent. And in apparel by about 160,000 in the last 10 years which is an average of less than 2 percent.

My question is: What does some of that decline have to do with this attempt to get competitive and the buying of the new equipment that you have talked about? It does not look like there is a great personnel problem.

Could you respond to that?

Mr. **Derrick**. Of course, some of it is. There is no question about it. I mean, as we pointed out time and time again, the textile industry, is I think, the No. 1 industry in this country in conversion of cash-flow into capital improvement. And a lot of that is computerization and one thing or another. It does eliminate some jobs. But that is just a small part of what we are talking about.

You know, I am not going to tell you that some of that is not mixed up in this. Certainly it is.

Mr. **Frenzel**. Thank you.

I also noted when I traveled through some of the mills on part of the chairman's trip that a lot of the improvements are measured in terms of Swiss, and German, and even a few pieces of Japanese equipment. Should we put a quota on them too? They seem to have covered that market pretty carefully.

Mr. **Campbell**. Let me go back to your first question, Mr. Frenzel.

No. 1, is that while we have had a loss in the last 10 years of several hundred thousand employees, you also have to remember that this is in the face of tremendous growth in the population, and consumption, and the gross national product of this country. And so not only are we losing in actual terms, we are losing much more in the percentage of the marketplace that we impact. We have to keep that in perspective.

Second, there is no question that in this country that for years the textile machinery manufacturers fell way behind the rest of the world in the state of the art. Now, fortunately, today they have rebounded and have been showing equipment that is being bought by the textile industry because it is very competitive.

There was no way in the world to compete because the machinery was not available. But it is available in many instances now, and you are seeing a resurgence of the American textile machinery industry. And I think that you will see the investment made in research and development, and I think that you will also see that they have utilized some R&D tax credits and they have utilized some of the new incentives to invest in research and development that perhaps they might not have had during a few previous years.

Thank you.

Mr. **Frenzel**. Thank you, Mr. Chairman.

Mr. **Derrick**. Let me just pursue it just a moment.

You know, I walked into a mill in my district, oh, 3 or 4 years ago, and they were showing me all this new machinery that they had put in. And it was Swiss machinery. And I asked the same question that you did. And the mill owner told me, he said, "you know, we hate that, we really do. We tried to buy American machinery, but the American textile machinery manufacturers have not had a new idea in 40 years. And they were just that far behind."

Now, you know the other thing that you hit on about this improvement. Many—and I can think of Greenwood Mills, which has about 14 or 15 plants in South Carolina, and most of them are in my district, some of the very plants that they have invested the most money in over the last few years are the ones that are having to be closed down because of the import situation.

Mr. **Frenzel**. I invite any member of the panel to respond to any question.

Mr. **Coble**. I think as far as the manufacture of socks, I think that the sock manufacturing equipment and machinery, I think the best ones available are manufactured in America.

Now, some of the other related industries that my colleagues have just touched on, on some of it, there is a lot of the—some of the textile people in my district, Mr. Chairman, and members tell me that oftentimes the equipment made in America, that is, is not available to them.

And I am just wondering, folks, if maybe what happened to them way back yonder is what we fear is imminent to the textile and apparel people today?

Mr. **Frenzel**. Let me ask you another question.

You talked a lot about free trade. How are people restricting us abroad?

If there were no MFA and there were no restrictions on textiles, no subsidies, or tariffs, could we sell any anywhere?

Mr. **Coble**. Well, I think if you had pure free trade with fairness built into it, Mr. Frenzel, and I think that is one element that is missing here is the element of fairness, I think American textiles, Mr. Frenzel, and members of the subcommittee, could compete with anybody, anywhere, so long as the playing field is level.

Mr. **Frenzel**. Well, what is the level playing field? We have got to pay the Indonesian male employees the same as we pay the United States ones?

Mr. **Coble**. Well, I do not know what the level playing field is but I do know that we ain't on it. It is badly tilted to our detriment now, and I do not know that I can answer that question.

Mr. **Campbell**. Mr. Frenzel, let me take a crack at that.

I have heard our chairman speak of the cost of government differential and the payment of the cost of government. I would like to pose it as a quality of life differential.

We impose upon industry in this country safe working conditions. We have OSHA, we have environmental cleanliness, we have the EPA, we have wage schedules, and we impose a quality of life in this country. Other nations do not do that. And, yes, there is a quality of life differential which I think is important. I do not want to destroy the EPA, or OSHA, or any of the better working conditions that have improved the ability of people to work and progress in this country. In other countries they do not impose that. And, yes, that is difficult. And, yet, in the face of that, we still are competitive. Yet, in the face of that, we still find these other countries subsidizing their exports trying to keep their employment up and selling actually below cost.

And even with that, I think we would have to recognize that if we had a pure, and open, and free trade system in the world, if our Government imposed certain things on our industries that were not imposed on other industries in other countries, yes, the playing field would be still unlevel. It would be unequal.

Mr. **Frenzel**. I have got to find out how high you want it jacked up, the playing field that you are on.

According to the administration, textiles and apparel have an average of a 22-percent tariff schedule now. In addition to the quotas imposed by the MFA, and in addition to country of origin, in addition to quota calls that are being put on daily, the rest of the items in our tariff book seem to average less than 5 percent.

How come your playing field has to be tilted so severely? You are getting somewhere between $25 and $20 billion worth of protection now out of the consumer's pocket and you are asking for another $14.

Can you explain why this industry needs so much more than others?

Mr. **Jenkins.** Bill, first of all, it is true that a lot of the underdeveloped countries and those with lower wage rates can easily get into this particular industry, particularly I think apparel.

So if you are saying to your United States manufacturers that are paying on an average of between $6 and $8 with fringe benefits an hour in labor, they ought to be able to compete with an average wage of less than $2, in many cases down to 19 cents an hour in China, then obviously, and you have no limitations whatsoever, you are going to have a distorted figure as far as the imports are concerned.

But you mentioned it, so I make no apology for that. Those are the facts. We do have a high wage rate, but we are the lowest manufacturing wage rate in the United States as far as a major industry is concerned. So I do not think we have priced ourselves out of the marketplace from the standpoint of demands from the employees as far as wage rates.

But I want to say that, in addition to that, other countries have not been very timid, very hesitant, in protecting to a large degree their apparel, their textile industries. I mentioned the EC's a few moments ago. Let me give you a few specific examples.

The Philippines places a total ban on textiles, used clothing, remnants, wearing apparel except for textiles used in the manufacture of apparel items for reexport only.

India levies an excise tax and countervailing duty on all textile products. It requires import license on practically all products.

Thailand imposes a business tax, a special import fee, a municipal surtax, an import license, just to name a few.

Brazil requires that goods receive an import permit and a commercial invoice. Some duty rates are up to 205 percent cost insurance, the CIF rate, 205 percent. The country places an industrialized product tax, a merchandise circulation tax, an airport import improvement tax, to just name a few.

Korea is one of our biggest shippers, assesses a value-added tax and a special consumption tax on textile and apparel goods. Since 1967, Korea has had an import plan based on a restricted list of items whose license must be approved by the ministry or the trade associations, and many, many items are specifically banned.

These are just a few of the—and I understand their need to protect a basic industry. But I am simply saying that it is high time that this Nation not be so timid and hesitant to go ahead and give some degree of protection for our Nation that has the marketplace. This is the marketplace.

Mr. **Frenzel.** I guess I do not deny what you say. I would simply say for the record that the administration believes that the 23 percent higher tariff rates we have compensate for the difference in labor rates.

Also I believe that U.S. labor is supposed to be more productive than other labor. It is. It demands a higher price because it produces more. How much protection do you need? It is clearly the most protected industry in the United States.

You are coming in asking for about 75 percent more protection in terms of consumer dollars. There is nothing in the bill that says what the industry is going to do with all this money that it takes from my constituents. Is there some guaranteed investment plan? What are we going to do to strengthen the industry so it will not need an iron lung next year to go along with the wheelchair this year?

Mr. JENKINS. Bill, I do not believe there is any real valid criticism of the domestic industry for not investing, for not modernizing. I mean if that were the case, if this industry is failing to update, to modernize. But, let me tell you, there ain't no better plants in the world than what we have here in the textile/apparel industry. We are the leader as far as productivity.

And I truly fear that so many people still look upon the textile apparel industry as a so-called low tech industry. That simply is not true, simply is not true. Technology, it is true, can be transferred overnight and is as soon as we update ours, find new techniques, many on a company-by-company basis, they are transferred overnight to other countries. But we are spending——

Mr. FRENZEL. Thank you. I am going to yield my time and let each member of the panel respond as they want to.

Mr. CAMPBELL. Bill, I want to give you one little thing. You said one comment that your constituents would pay.

You have seen, I hope, the many samples of shirts and things that we brought before the committee and pointed out that they were made in different parts of the world. We showed the cost of them. And yet we showed the retail price, and they are all about the same. They are all about the same. The difference is the markup to the retailer in many instances.

I am sure you have been aware of that and that your constituent is not necessarily getting those savings passed on to them. And that is something to take into consideration when that argument is made.

The fact is that we offer decent goods in this country, we are doing it cheaply, yes, competition always helps. But the consumer is not necessarily getting the benefit of the differential. And I think they should be aware of that.

If you will look at some of the—this really brings the point home, and this relates to the labeling requirement—if you will look at some of your catalog sales, you will see statements in them that say "Made in U.S.A." or "Imported," and the price is listed the same.

So I think you should be aware of that.

Mr. FRENZEL. If there was not a price differential, you would not be sitting where you are, asking for what you are asking.

Mr. CAMPBELL. No; but I am just saying that there is a price difference——

Mr. FRENZEL. Do not tell me people are not getting an advantage, because if they were not, you would not be asking.

Mr. CAMPBELL. I am saying that is the reason we went for a labeling bill at one time, to get people to look at the fact that things were made in the United States because essentially, marketing wise, it was just being kind of passed across the board, all about the same cost, all about the same price.

You can argue, and I could not dispute you, that perhaps the price may be a little lower because that competition is there. But I can argue with you that the sales price or the cost differential is not necessarily being passed along to the consumer.

Mr. **Frenzel**. Thank you. I could argue.

Mr. **Derrick**. Bill, you know, I do not—I remember in a hearing that we had some time ago when this question was asked of a prominent member of the industry. And as I recall what they said, and I will try to find these figures for you, it was the one we had back in South Carolina about a year ago, that if the quotas were enforced as they are on the books today, and if everything was in place, and Indonesian cloth or goods came in here, and if we were able to start out even right there, that we would be very competitive. But that it was the subsidies, substantial subsidy on the other end of the line, that was causing us the problems.

You know, maybe you can buy some imported goods now cheaper. But the tactics of these nations is to hone in on these particular markets. And once they have run all of our American companies out of the market, then they have the market to themselves. And one of the perfect examples of that, as I recall, is cut velvet. We no longer have any substantial manufacturing of that here in this country, and that the last company, as I recall, that went out of business that was in it, was the Compton Co., if I remember correctly. And shortly after that, the price went up substantially per yard. And, sure, we may be getting a little benefit from it now. But one of these days before too long, we are going to be in the same position that we are in with the oil business. Of course, it is working the other way now, but it went the other way for a long time.

But the point, that is the point that I make.

Mr. **Frenzel**. Thank you.

Mr. **Coble**. I will wait, Mr. Chairman.

Chairman **Gibbons**. Fine.

Mr. Pease.

Mr. **Pease**. Thank you, Mr. Chairman.

I would like to thank our colleagues for some excellent testimony. And also I have to say how much I enjoyed the trip at Easter time to South Carolina, and Alabama, and Georgia. I did not have a chance to go to North Carolina but I am sure the conditions there are roughly similar.

And like the chairman, I was powerfully influenced by what we saw at those hearings. I was powerfully influenced by the efforts that U.S. textile companies have obviously made to be competitive, bringing in new machinery to get at the top of the productivity curve.

I was also powerfully influenced by the empty factories and the impact that we saw on the communities where factories had to close.

So I am, like the chairman, very desirous of trying to find some solution to this problem. There is a problem and we need to find some solution to it.

I was happy, Mr. Jenkins, to look at the annex that you attached to your testimony rebutting a number of the points made in the administration's letter. I think the administration makes a good case on the surface. But it is important to look beneath the surface and see what the facts are that might tend to contradict that.

For example, the administration makes the point that shipments, from overseas have declined 44 percent in the first 4 months of this year. Apparently that is a fact, but apparently it looks to me from your response as if that is a decline which is industrywide, and that actually shipments by American companies have declined even more. So that in comparative terms we are still suffering vis-a-vis the imports.

Is that a correct interpretation?

Mr. **Jenkins**. That is correct.

Mr. **Pease**. Can you tell me why it is that total shipments, domestic and imported, have declined in the first 4 months of the year?

Mr. **Jenkins**. I think, as the world economy is concerned, without any question, there has been some reduction or softening of the economy worldwide. And obviously some of the nations that have in the past been able to purchase have been utilizing their funds for a variety of other things, from payment of interest on debt to a variety of things.

But as I indicated in the response, the textile and apparel trade deficit so far in 1985 has been 9.4 percent higher than last year.

Mr. **Pease**. It is the difference between exports and imports, is that right?

Mr. **Jenkins**. I am comparing the trade deficit as far as textile and apparel.

Mr. **Pease**. Sure.

Mr. **Jenkins**. And last year we had a $16 billion trade deficit as far as textile and apparel were concerned. And it was 13 percent of our total deficit that we had. It has not improved is that point that I was attempting to make in response, even though that is the import of the answer that the administration gave.

Mr. **Pease**. Sure.

Well, I think that is a point worth making.

But do I understand that domestic demand in the United States has gone down in the first part of this year?

Mr. **Jenkins**. I think that it has. I cannot give you those figures. At least it has been—it has not grown.

Mr. **Pease**. Do you have any explanation for that? Do you know why domestic demand would be down this year?

Mr. Campbell.

Mr. **Campbell**. In the first quarter of this year, you know, we had a slowdown in the economy of this country. And I think that you saw that reflected in the first quarter in general across the board, Mr. Pease.

In the second quarter, I think that you would find that that has reversed substantially. I think those figures could pretty well be verified with the GNP growth. And I think that you will find a correlation there.

Mr. **Pease**. Also, Mr. Jenkins, in your annex you dispute the administration's claims about the growth of domestic textile shipments during the first 4 years of the administration. You say that while the administration claims textile shipments rose at 8.3 percent over 4 years, you think they actually rose 1.9 percent——

Mr. **Jenkins**. 1.9 percent. I think there is a great discrepancy there. I cannot explain the discrepancy. I do not know where they are obtaining those particular figures, but I think they are in error.

Mr. **Pease**. Yes.

Do I read these figures right then? It appears to me in the last 4 or 5 years that production of domestic companies, both in textiles and apparel, has been relatively flat. It has grown very, very little. Overall demand in the U.S. market has increased substantially, and virtually all of the increased demand has been filled by imports.

Is that a correct interpretation?

Mr. **Jenkins**. Without any question.

Mr. **Frenzel**. Will the gentleman yield?

Mr. **Pease**. Yes, sir.

Mr. **Frenzel**. The stats from the Department of Commerce do not indicate that statement. There is no corroboration for it, at least that has been submitted to this committee by any group.

Mr. **Jenkins**. That the growth in—the consumption increase has not been stable?

Mr. **Frenzel**. We have a statement which we had prepared before we took the trip down to Georgia and elsewhere, indicating a fairly strong growth on producer shipments in both apparel and textile mill products.

Chairman **Gibbons**. Well, let us just put the table in the record at this point, and then you can discuss it. Go ahead.

[The information follows:]

Apparel and textile mill products: U.S. producers' shipments, exports, general imports, and apparent consumption, 1974-84

(In millions of dollars)

Year	Producers' shipments	Exports	Imports	Apparent consumption	Ratio (percent) of imports to consumption
	Apparel (SIC 23)				
1974	30,632	593	2,465	32,504	7.6
1975	31,430	603	2,775	33,602	8.3
1976	34,759	740	3,912	37,931	10.3
1977	40,245	859	4,393	43,779	10.0
1978	42,742	1,035	5,722	47,429	12.1
1979	43,030	1,387	5,902	47,545	12.4
1980	45,782	1,604	6,543	50,721	12.9
1981	49,823	1,628	7,750	55,945	13.9
1982	53,406	1,236	8,432	60,602	13.9
1983	55,435	1,049	9,897	64,283	15.4
1984	57,287	1,099	14,000	70,188	19.9
	Textile mill products (SIC 22)				
1974	32,789	1,284	1,407	32,912	4.3
1975	31,064	1,157	1,107	31,014	3.6
1976	36,389	1,399	1,392	36,382	3.8
1977	40,550	1,345	1,489	40,694	3.7
1978	42,281	1,466	1,855	42,670	4.3
1979	45,053	2,130	1,834	44,757	4.1
1980	47,160	2,488	2,034	46,706	4.4
1981	50,120	2,326	2,482	50,276	4.9
1982	47,791	1,766	2,225	48,250	4.6
1983	53,984	1,560	2,557	54,981	4.7
1984	57,834	1,583	3,519	59,770	5.9

Source: Compiled from official statistics of the U.S. Department of Commerce.

Chairman GIBBONS. What is the source of that table, Mr. Frenzel? Can you identify the source?

Mr. FRENZEL. At page 7 on the handout that was entitled "An Analysis of the Textile and Apparel Trade Enforcement Act of 1985."

Chairman GIBBONS. What is the source of the statistics on that table?

Mr. FRENZEL. It is our staff, and the source is listed as the U.S. Department of Commerce.

Mr. CAMPBELL. Does that, Mr. Chairman, if I may ask, does that happen to show what percentage of the growth of the domestic market—that the domestic industry is getting and what percentage of the growth that imports are getting?

Mr. FRENZEL. Yes; the first column is producer shipments and exports and imports, and apparent consumptions and the ratio of imports to consumption. And it shows an increasing ratio of imports to consumption. But it also shows a fairly good increase in U.S. producer shipments.

Mr. CAMPBELL. But it is showing a declining market share?

Mr. FRENZEL. It is showing a declining market share but not any precipitous declining market share.

Mr. CAMPBELL. Does it show a percentage decline on the market share?

Mr. FRENZEL. It shows a ratio of 7.6 in 1974, 12.1 in 1979, and 19.9 in 1984. And as we know, these imports are flat this year, at least to date.

Mr. CAMPBELL. The first quarter?

Mr. FRENZEL. No; through the first 5 months according to this sheet.

Mr. Chairman, I think this is not assisting us, but let us have the staff put some of these things together.

Mr. DERRICK. I would like you to hear me.

Chairman GIBBONS. Mr. Pease has the floor here. Do you want it?

Mr. DERRICK. No; I want to ask if I might be excused. The Senate-House Budget Conferees are meeting at 4 o'clock.

Chairman GIBBONS. I hope you all get it all settled. [Laughter.]

Mr. JENKINS. Cut the budget.

Chairman GIBBONS. If you do that, that may have a hell of a lot more impact than my bill or Mr. Jenkins' bill or anybody else's bill on this mess.

Mr. FRENZEL. Take about 50 out and I will even vote for the thing. [Laughter.]

Chairman GIBBONS. Thank you. Thank you, Butler. We appreciate you coming. Very well done.

Excuse me. Let us go back to Mr. Pease.

Mr. PEASE. Mr. Chairman, I think on the subcommittee we can argue a lot about the approach to helping the industry, whether we ought to have quotas or this bill or another bill, or whatever. But we ought to be able to come to a common basis of understanding on the figures. And I would hope that our staff could assist us by working with the Department of Commerce and with Mr. Jenkins and the other cosponsors of this bill so that we have some commonly agreed upon base of information.

Chairman GIBBONS. I have the same feeling you do, Mr. Pease. And we will ask the staff, direct the staff to gather those figures, to get them together so we can have a compatible set of figures on which we can at least all agree to or we will know where the difference is.

Mr. PEASE. I would agree. And I think sometimes the confusion arises with one set of figures may be in square yards, another in dollars, and another———

Chairman GIBBONS. Yes, that is a problem.

Mr. PEASE. And you get into all kinds of difficulties.

Chairman GIBBONS. Maybe we need just a chart display session one day in which we all go over the same charts and see where we disagree.

Mr. PEASE. Mr. Jenkins, in that respect, your annex says the administration claims that real textile shipments rose at 8.3 percent, and you say in your statement they did not, they rose at a mere 1.9 percent.

The administration in its letter to us says the 8.3-percent increase is in constant 1972 dollars.

Is the 1.9 percent figure that you quote also in constant 1972 dollars?

Mr. JENKINS. I think the 1.9 percent was in real terms. And I frankly do not know what they are basing their figures on. I am totally confused when I saw those figures because everything that I have seen and the industry has provided to me show the figures that I used in trying to refute.

Mr. PEASE. Is the 1.9 percent as far as you know in dollars or in square yards?

Mr. JENKINS. In square yards I believe.

Mr. CAMPBELL. In square yards. And, Mr. Pease, I believe that is the only way we are ever going to really get a measurement is to see how much is coming in, and you have got to look at it in square yards to see that. I think that is the problem Mr. Chairman pointed out. We have got apples and oranges in use of figures.

But the square yards tell how much there is in sales and how much there is in penetration. That does not necessarily tell what it sold for and that sort of thing is a different set of figures.

Mr. PEASE. Mr. Chairman, maybe we can ask the staff to give us a chart showing apples and a chart showing oranges. I would like to have it both in constant dollars. And I think we ought to ask the Administration to convert its growth figures to square yards so that we can get some comparability.

Chairman GIBBONS. OK. Well, let us move on, and I certainly hope we can get that.

Mr. PEASE. If production in the domestic industry has been relatively stable over the last 4 years and all of the growth has been from imports, which is what I said a little while ago, we have got to soften this other discussion, then presumably the domestic industry would still be producing the same amount that it produced 4 years ago.

Might it not be true that the plant closings that we are seeing are really a result of rationalization in the companies because they are modernizing and becoming more efficient and going more to more machines, have use for fewer plants and fewer employees to produce the same number of square yards?

Mr. **Jenkins**. I am sure that is part of it. We have modernized and continue to do so. And that increase tends to have some effect obviously upon employees.

But during the same period that we are talking about, the last 4 years, the facts are that you have gone from 5 billion square yards to 10 billion square yards in imports.

Mr. **Pease**. I understand that, right.

Mr. **Jenkins**. Mr. Pease, that modernization has increased, investment has been made, productivity has increased. Fewer people may obviously be required to produce.

But what you have to look at is the declining share of the marketplace as a whole. In other words, yes, we might be modernizing. And hopefully the rest of the world in many instances is to some degree, too. And, yes, we are more competitive and, yes, we are state of the art. But as our share of our own marketplace declines, as those figures that were read out went up from something like 7 to 12 to 19 percent of the market. As our share of the overall U.S. market declines, and as our exports have declined precipitously, then we have had job losses far and beyond that that can be accounted to strictly modernization. And I think that we have to look at it in that context.

Mr. **Pease**. Well, the job loss would not occur because the domestic industry is having a declining percentage of the total market. If the domestic producers are are still producing the same number of square yards, then it would take the same number of workers to produce those same number of square yards if it were not for modernization.

Mr. **Campbell**. We are not exporting, Mr. Pease. We used to do a lot of exporting and we cannot export any more. We are losing a percentage of our own market, and we cannot sell anywhere else. We have got the dollar and trade restrictions against us, and at home we are being flooded with imports and a combination of those two things is just overwhelming the industry.

Mr. **Pease**. Mr. Chairman, I hope we may get some figures on exports too. I think that is a good point.

Chairman **Gibbons**. I think you raised an excellent point there. One of the problems of this industry is it has lost its export market. And it has lost its export market not only because of the value of the dollar, but also because of the protection of our U.S. banks and financial institutions. The IMF has just told a large segment of the world, "Do not import. Cut your imports substantially." And, therefore, we have lost a tremendous market, not only in textiles and garments, mainly textiles, but we have lost it in everything. A lot of our disastrous trade picture is caused by imports, but an even greater part is the fact we have lost our export markets, because the Eximbank—excuse me, not the Eximbank, the IMF has just told most of the developing countries of the world, "do not buy any more, cut your imports and increase your exports at all costs." And those countries have done that or else had their loans called on them.

To some extent, then, the Carolinas and Georgia and Alabama and the rest of the country involved in the textile business are the victims of IMF policy as much as anything else. They have really been hammered over the head.

You put your finger on a good point.

Mr. PEASE. Mr. Chairman, I will yield the balance of my time.

Mr. COBLE. Mr. Chairman, may I seize the kind opportunity you gave me earlier to respond to what the gentleman from Ohio said in his opening remarks.

He said he was impressed with what he saw on his tour. And that leads me to say to you all, I do not think it has been said precisely, I think we have all implied it. We four do not sit before you all this afternoon and ask you to endorse legislation that will benefit an inefficient industry. Nor do the 290 cosponsors of this bill ask you to do that because the industry is not inefficient.

As you pointed out, Mr. Pease, there has been refurnishing, there has been remodeling, there have been new construction of plants, that people—these mill people, Mr. Chairman, just as they did to you, they take me through these plants and they point proudly to new equipment. They point proudly to new physical plants and letting it be known that they are emphasizing efficiency.

So we are not asking you to bail out somebody who has not carried their own weight.

Chairman GIBBONS. Well, we are going to come back to that in a minute, but I want to go to Mr. Heftel first.

Go ahead, Mr. Heftel.

Mr. HEFTEL. Thank you, Mr. Chairman.

I share with the panel and the members up here the concern for the industry and the jobs represented by the industry, and I also realize it is far more complex than I wish it were, and the dialog today tells us the complexity.

But I do not think I want to be redundant in retreading the information that has already been disseminated, and I think the very impressive analysis that has emanated from the panel in questioning the four members who were here.

But let me give you an insight into another facet of this whole subject which pertains also with jobs, and also an interesting phenomenon in where some of the increases come from that we are talking about.

Normally, I do not use a parochial example of Hawaii. Today I must. Hawaii has developed about 3,000 jobs, and on a ratio of the mainland to the jobs lost and the jobs to the workforce in Hawaii, it is like a 50-to-1 ratio. It is 50 times more significant to Hawaii than are the lost jobs of 200,000 or 300,000 jobs over the last 5 years or 10 years in the garment industry.

But those jobs developed as the manufacturers in Hawaii learned how to work with Pacific rim suppliers of fabrics in terms of small lots, 3,000 yards or whatever the case may have been, the manner in which the multicolors were developed.

And so you have virtually a new industry arise, an industry involving some 3,000 jobs, some $80 million in sales, and when you spoke of the machinery that cannot or could not at least be bought from American manufacturers, the industry had to go abroad to Switzerland, Germany, Japan and so forth.

Well, in Hawaii, the same thing is true. Hawaii cannot go to the American manufacturer to get the same service, the same response time, the same concern with these small orders that I have alluded to, but the can do it with the Pacific rim countries.

So here we have an instance where you have developed 3,000 jobs, $80 million in sales from the ability to get a source to develop a fabric in the size and configuration and detail needed unavailable from the American manufacturer.

So one of the things we have got to caution ourselves about is not inadvertently destroying that market as an example because it does not help the American domestic market.

If you took away the ability to buy from the Pacific rim nations, you simply take away the ability for 3,000 people to work, and nobody has gained in the process.

Now, I want to share this with you because I am one of the people who has worked with you gentlemen, including Mr. Jenkins, to assist in solving your problems, and I intend to continue doing that, but in the process of solving your problem, if, in fact, this does, I do not want to have just created another problem, destroying jobs in another way for which there is no benefit to anyone, and so I want to share, Mr. Chairman, panel, and the members in front of us, the fact that we have to find out where there is opportunity for jobs and sales because of the nature of fabric importation that is available only from the Pacific rim nations.

I cannot tell you that this is not also true in terms of any domestic manufacturers in the continental United States. I can only tell you at this moment what I know specifically about Hawaii.

I think that part of this problem is one that has to be analyzed to find out what part of the market, the American manufacturers want to compete for and want to be able to compete with.

If they do not want the 3,000-yard order, if they do not want the specialized detailed kinds of working with small manufacturers, then they have got to be sure the legislation we pass does not destroy a segment of the industry and jobs with it for which there is no gain to the American manufacturers.

So I think, as I have gotten into the issue, and as I listen to my colleagues, we are all going to have to become fairly expert in this whole subject matter. I am going to have to go to school and do a lot of learning, and all of us are going to have to figure out the consequences of what we do and the results we get.

I share with you a great concern for the administration numbers. Sometimes those numbers are meant to satisfy the State Department in issues unrelated to what we are concerned with. Therefore, they have multiple motives in what they do and say.

I do not question their integrity. I do not say that the numbers are distorted. I do say that if you look at something through one pair of glasses, it can be totally different than from another pair of glasses.

So we are going to have to know more about where the administration is getting its numbers from. We may well have to develop our own and be sure that they are, in fact, accurate, and we cannot go on allowing a deterioration of our domestic industry simply because Product A is available from sources 1 and 2, 1 is domestic and 2 is foreign, and foreign is subsidizing, underselling, undercutting and destroying the ability of the American manufacturer and worker to compete.

We also have the other issues where the American manufacturer is buying from a foreign source which is not available from an American source so we have to make those distinctions, and so I am hopeful that as we gain this additional knowledge and as we work together for a common purpose, that we do not inadvertently destroy in the process of trying to preserve. And I am looking forward to working with the chairman and with the gentlemen with us today on this issue. And I would be delighted for some of your insights because it is so important that we share as we are today what we know and what we feel and what we are trying to achieve.

Thank you, Mr. Chairman.

Chairman GIBBONS. I simply want to express to my friend from Hawaii how grateful I am for his help already, and I recognize that as we go through this bill that there is a great deal that many of us will learn. The committee will have to work together and I am willing and able to continue to work with the gentleman from Hawaii to try to solve any particular questions or problems he has.

Now, I am very much aware of the fact that we have other witnesses here today so I am going to try to be brief.

Can you tell me, any of the three of you gentlemen, why was Canada and the European Community left out of this bill?

I am not trying to drag them in. If there is anybody here from Canada or the EC, I just want to know the rationale.

Mr. JENKINS. You know, very honestly, I would like to have a global quota period as far as textiles are concerned.

I recognize the relationship has developed through the years as far as Canada is concerned, as far as the EC is concerned. I do not think I could pass it, make it much more difficult because of that special relationship. We attempted to show some favoritism to Mexico as well as far as the market from there. And together with the Caribbean countries.

So I would be very frank and honest in telling the chairman that I truly believe that we ought to have a global quota, but I did not think that was feasible from a political standpoint.

Chairman GIBBONS. Any of the rest of you want to say anything?

Mr. CAMPBELL. Well, Canada and the EC, of course, are the areas where we have had more open trade, Mr. Chairman, where we have had a history of it and a special relationship. The general areas that we cover are areas that are covered primarily by bilateral agreements which already have certain restrictions in many instances which are not necessrily working.

I understand there will be some effort from the Senate side maybe to look at those particular countries.

Chairman GIBBONS. Well, the reason I asked about Canada and the EC, it seems that much of our import increase in the last couple of years has come from those areas, and I did not know whether there was some kind of other arrangement with EC and Canada that I was not particularly aware of.

Mr. CAMPBELL. Mr. Chairman, the growth, the Canada and the EC growth, a lot of that has been dollar related. In some other areas though, and I made a comment in my testimony that I submitted, in some other areas, of course, the trade is kind of dollar pegged and so the differential is not quite as great in some other parts of the world as you might think it would be strictly from the dollar.

But we recognize that we have had a growth, particularly from the EC. And yet that is largely a function of a couple of things. One is the dollar, the other is their tax system, the value added tax they are putting on imports and taking off of exports and things of that nature.

Chairman **Gibbons**. All right.

What kind of licensing provision would you all incorporate in this? Would you object to the auctioning off of these licenses or quotas?

Mr. **Jenkins**. Well, first of all, the statute itself, it could be handled in many ways. But as you probably know, the bill simply gives the authority to the Department of Commerce, to the Secretary of Commerce to establish the licensing procedures. The bill says that the fees for the import license would have only fees I believe sufficient to carry the cost of the administrative part of the issue of the license and administering that part of it.

Chairman **Gibbons**. Well, who is going to get the licenses?

Mr. **Jenkins**. This is left once again to Commerce. You know, many countries do it in different ways. Hong Kong, of course, is, I guess, the most notorious for auctioning or, in effect, doing that. Others handle it in different ways.

I am open for suggestions but we leave that really up to the countries.

Chairman **Gibbons**. Well, that has always been one of the more vexacious things because if we are going to license the importation of goods, we have got to decide who is going to get the licenses and how they are apportioned. Are they going to be given out on the basis of historical practice? Are they going to be given out on the basis of who contributed to the last campaign—certainly that will not happen. How do we decide who gets the licenses? That has always perplexed me.

The only fair way I have ever been able to come up with is to auction them. But that brings in who is going to run the auction, how often do you auction them and, you know, these are not trivial questions, gentlemen.

Mr. **Frenzel**. Mr. Chairman, we already have an auction system in the Far East, and that socks the people who buy the goods. They have got to pay for the price of the auction quotas. They have got to pay the price of the quota itself. Then if we have another auction in the United States, we are going to have people running around shirtless in this country. [Laughter.]

Chairman **Gibbons**. I have got enough to take me a little while.

Mr. **Campbell**. Mr. Chairman, I do not think we tried to define that, and we did so with the Commerce Department. I guess our assumption would be that there would be an historic allocation to countries, within which they allocate on an auction basis, as Mr. Frenzel said. Other countries, of course do it on an assignment basis. Some societies are closed, some are open.

And I am glad you pointed out that they would not be handed out on the basis of campaign contributions, foreign campaign contributions being illegal to any Federal office seeker.

Chairman GIBBONS. A lot of these are going to Americans so that——

Mr. FRENZEL. It is not the foreign. It is the local importers.

Chairman GIBBONS. Yes, it is the local importer. Who is going to get them?

Mr. JENKINS. Well, if we have a quota from a country just as we do today with Hong Kong, they handle it themselves as to who exports.

Mr. FRENZEL. Yes, but your bill calls for a licensing system on our part, not on their part. So you have got to have some kind of a system. We have to know what we are talking about.

Mr. JENKINS. I think that the two countries though would obviously have to work in concert as far as establishing who those particular companies who would be doing the exporting.

Chairman GIBBONS. What worries me is that Sears and Roebuck is going to get all the shirts and somebody else is going to get all the underwear, and everybody else gets the shaft. You know, that is——

Mr. JENKINS. If we do not do something, this industry will obviously get the shaft.

Chairman GIBBONS. I do not want to bring that up. I am worried about this licensing procedure, Mr. Jenkins. How are we going to handle this allocation?

Mr. JENKINS. Mr. Chairman, if you will just let me pass everything else in this bill, I will be pleased to let you write up part of the bill. [Laughter.]

Chairman GIBBONS. I was afraid you would give me that responsibility. [Laughter.]

Mr. HEFTEL. Mr. Chairman, if you would yield for a question.

Chairman GIBBONS. Certainly.

Mr. HEFTEL. Mr. Chairman, I would like to just pose one other typical concern that I think has to be looked at before we are through.

Where you have had a relatively new development of industrial activity, let us say, since 1980, and you roll back your quotas in 1980, you are discriminating in a way that I am sure was not intended because I do not think you focused on what happens to sources such as companies in Hawaii who may have generated 80 percent of their volume since 1980, and have no alternative. And I do not want to delay the proceedings today, but I just wanted to share with you an example of the kind of considerations that will be needed, and that is just perhaps a small one but a very significant one from my standpoint. And I did want to share that with you.

Thank you, Mr. Chairman.

Chairman GIBBONS. All right.

Yes, sir, Mr. Pease?

Mr. PEASE. I hate to delay the hearing, Mr. Chairman. I would like to take advantage of our witnesses while I can.

Mr. Campbell, in your testimony you said that there has been a 60-percent surge in imports over the last 2 years. Is that correct?

Mr. CAMPBELL. Yes.

Mr. PEASE. That is 1983 and 1984?

Mr. CAMPBELL. Yes.

Mr. **Pease**. OK.

I would like some guidance, if you can give it to me, on the source of that surge.

We have an MFA, we have got quotas, all kinds of them, and yet there was a 60-percent surge. Just trying to think it through myself, it looks to me like it could have been from countries not subject to MFA quotas at all. And that is the developing countries, not subject to the quota. It could have been from developed countries like Canada and the European Community and elsewhere not subject to the quotas because they are developed countries, or it could have been from countries like Korea and Taiwan which are subject to the quota, but the surge could have come in products which are not yet subject to a particular quota.

I think in the testimony of one of you gentlemen it was mentioned that the administration gave up overall country limitations a couple of years ago so that even if a lot of products were covered in Taiwan or Korea, as long as they could dream up new products, they could just keep on sending goods in here.

Do you have any notion at all of what accounts for this huge 60 percent surge?

Mr. **Campbell**. Yes, sir. You know, you listed a lot of the reasons, but, yes, the administration did give up aggregates. And in giving up aggregates, they gave up to nations the ability to switch products. They run up to a ceiling on this one, drop off, switch a product production line and move to another product.

We also have what we call a kind of mobile plant situation, the ability to move plants a lot of times into smaller nations, increase their productivity of a particular product dramatically in a short period of time. Those things have happened.

We have had, beyond that, we have had people transshipping goods and that has been a problem we have tried to address and the administration has where they literally were making goods one place, moving it somewhere with very little transformation of product, and then bringing it in through another country. That has contributed to the surge.

As for the EC's and Canada's growth, I would have to attribute more to the dollar differentials there.

The combination of all of these have contributed, and we recognize the EC and Canada situation. We have gone after the transshipped goods.

Now, we do have real problems with countries that have subsidized so below market or that without aggregates have switched in and out of products, even though they may be somewhat sensitive, from another country and, therefore, impacted us very dramatically. All of that has contributed to the overall surge.

Mr. **Jenkins**. Most of the bilaterals also carry back, carry forward. All of those procedures where really it is in addition to the things that Carroll mentioned. They were all limitations of some kind, painless.

Mr. **Pease**. Well, thank you very much. That helps.

Mr. Chairman, I would certainly appreciate a memorandum from the staff which seeks to quantify the source of this very large increase over the last 2 years. That may suggest to us some things that we could do to help out.

Chairman **Gibbons**. Fine. Thank you.

Let me ask you is there any way that anybody in the weaving industry or cloth making industry, making cotton fiber or other textile fiber or blends can survive without having gone at least to the Sulzer loom?

Is there any way anybody can survive without having gone to that kind of loom?

Mr. **Campbell**. Well, a lot of them have dropped back, you know, from the higher speed looms to a little slower loom that provides more versatility to address problems such as Mr. Heftel raised. And that is to run a shorter run, they can run three or four different runs on the same loom.

I am proud to say, Mr. Chairman, that in the United States this year in the machinery industry, the Draper Corp. in this country showed a state-of-the-art loom which did something none of the rest of them could do, not only could they sew the wide sheeting product and all, they could seam it all at the same time.

I was awfully tickled to see all the Japanese around taking pictures of that. Maybe we've turned the corner a little bit.

And maybe the answer to your question is, in the future, we might be able to survive as we rebuild our machinery industry.

Chairman **Gibbons**. Well, what prompted me to raise that question is that I saw the Sulzer shuttleless looms and I saw the Sulzer type with jet looms. And I realize that each one of them is used for a little different purpose. But it looked—the jet loom seemed to be just sort of an add-on to the Sulzer type loom. It looked, you know, pretty much the same. Obviously they move a lot faster than shuttle looms do.

But I notice in your industry, and I am quoting my own figures now so let me warn you they may not be accurate, I am relying on staff and staff is great but, you know, we all make mistakes. My figures relate to the shuttleless loom, which is what we are talking about.

There were 38,600 of them in place in 1980, and now there are 52,600 of them, or by 1984 there were that many. And that is a substantial increase in the number of the shuttleless looms. But that still only represents 28 percent of all the looms in the United States the way I read these figures. In 1984, if only 28 percent of our looms were shuttleless looms, we have got a long way to go.

Mr. **Campbell**. Well, Mr. Chairman, we have—of course, you know, we have got the water picks, we have got air jet looms and the shuttleless looms.

Chairman **Gibbons**. I figured the air jets and the water jets and the small picks are all shuttleless looms.

Mr. **Campbell**. And we have been a shuttle loom industry as you know.

Chairman **Gibbons**. Yes, I know.

Mr. **Campbell**. And had the fly shuttle.

But let me point out to you that we went for speed at the beginning and long runs and the bigger looms. A lot of the plants, a lot of the manufacturing plants cannot take the high speed loom. The high speed looms have to be on a heavy concrete floor.

Chairman **Gibbons**. Or they will shake the building apart.

Mr. **Campbell**. Or they will shake the building down.

Now, that is the transition. The transition is not just taking out old looms and putting in new ones. The transition is throwing the building away and rebuilding a building which has made the investment just that much greater to get up to speed. That has been a problem.

And one of the other problems has been that as we have gone for the speed, we went away from the versatility, and then they recognized some of the problems that Mr. Heftel brought out and the industry kind of came back around part of these things to try to maintain versatility over speed because they found that there is a market there for a shorter run good, and that they are able to do that.

And so all of these combine but, yes, we have a long way to go still even though we are making progress.

Chairman GIBBONS. All right.

Well, I want to thank each of the four of you for coming here today and presenting your case and for the fairness and sincerity and high degree of competence you have all displayed. We appreciate all of this very much.

Mr. CAMPBELL. We thank you, sir.

Chairman GIBBONS. Next, we have Congressman Blaz and Congressman Armey.

STATEMENT OF HON. BEN BLAZ, A DELEGATE IN CONGRESS FROM THE TERRITORY OF GUAM

Mr. BLAZ. Thank you very much, Mr. Chairman.

Mr. Chairman, I would like to request unanimous consent that my prepared text be included totally in the record, please?

Chairman GIBBONS. Yes, sir, without objection it is so ordered.

Mr. BLAZ. All right, sir, having said that, I would like to take just a few moments now to thank you for giving me this opportunity and I would like to just make a few remarks. I speak before you today on behalf of all the American territories and the Commonwealth of the Northern Mariana Islands.

Chairman GIBBONS. Fine.

Mr. BLAZ. First of all, sir, I, like the gentleman, who preceded me, I also am in favor of protecting the American textile worker. Like the gentleman who preceded me, I also am in favor of protecting the garment industry.

The distinction that I am making, however, is that I would like to have that protection extended to the American textile workers and the American garment industry in the American territory of Guam.

Now, for reasons that are really not too clear to me, the current bill treats the American territories as well as the Commonwealth of the Northern Mariana Islands and specifically the Territory of Guam, as a foreign country. I was very pleased to hear you, sir, ask the question, for what reason do we exclude the EEC, and Canada, if indeed, the answer that was given to you was adequate, that being that we have a special relation. I submit to you, sir, that we can make a case on Guam that we have a more special relation with the United States than any of the countries that have been excluded.

Chairman GIBBONS. We have an obligation.

Mr. BLAZ. Yes sir; I am glad that you said that because it makes my testimony a little bit easier.

Now, the garment industry that I am speaking about, sir, is a very modest one. It employs only 300 people; it is an American garment industry; it has American workers totally. And this garment industry is as a result of headnote 3(a) for which we invested an enormous sum of money to get it started. We have suffered enormous setbacks, but just last year we started to turn a profit, just a little bit.

We have been subjected to a quota by exemption already, by the Committee for the Implementation of Textile Agreements [CITA], yet, this new bill would subject us to a different kind of quota, which is substantially lower. We are geared for a higher rate, and this one gears completely lower.

The difficulty that I find myself in being designated a foreigner and domestic at the same time, is that it makes me a half-breed.

It does, Mr. Chairman, because I am a foreigner in terms of quotas, and domestic in terms of American wages, and American safety and American pollution laws and regulations.

There is just no way for the Guamanian Americans to compete with any industry, foreign or domestic. For that reason, I make a plea to you and the committee members to please consider treating us as the Americans that we are.

And one final thing from the standpoint of economics, because of the difficulty that we have being treated as half-breeds for purposes of this type of designation, we have lost our watch factory for the same essential reason. We have lost an oil refinery. We now have a part of an airline grounded on Guam because we cannot comply with noise pollution regulations. Landing at an airfield at the same time that Navy jets are landing, no noise pollution there. B-52's on the left, no noise pollution there, but commercial headlines in the middle; there is noise pollution there.

Chairman GIBBONS. That does not make any sense at all.

Mr. BLAZ. We also import 90 percent of the fish that we eat on Guam, believe it or not, because we have so many Federal regulations that prohibit us from developing.

I make a plea to you, please, to consider us Americans that we are and exclude us from that foreign country designation.

Thank you.

[The prepared statement follows:]

STATEMENT OF HON. BEN BLAZ, A DELEGATE IN CONGRESS FROM THE TERRITORY OF GUAM

Mr. Chairman and members of the subcommittee, I speak today in opposition to the inclusion of Guam and the other insular possessions in H.R. 1562 as "countries." This bill places the U.S. terrritories in the same category as foreign territories and foreign countries for the purpose of imposing strict import quotas on textiles. Thus, Guam is seen by the authors of this bill to have more in common with India or Taiwan than with the rest of the American Republic. We on Guam are Americans. We are loyal adherents to the cause of democracy and free enterprise. We have died in their defense. Yet, this bill tells us our faith is misplaced. We ask no more of our Federal Government than to be treated as other Americans and afforded the opportunity to develop our private economy. Yet, this bill represents one more instance of the economic exclusion of Guam from the rest of the American family. Slowly but surely I fear the cords which bind Guam to the heart of America are being loosened and severed.

The immediate effect of this bill will be to slap severe import quotas on Guam and the other territories. These quotas establish ceilings which are far below the number of textile products currently being produced and shipped from Guam. Under H.R. 1562, Sigallo Pac, the sole textile concern on Guam, would be limited to the yearly export of only 6,720 dozen sweaters. At present, Sigallo Pac ships 140,000 dozen sweaters annually. Faced with such a restrictive quota, Sigallo Pac will close its doors and lay off its 400 employees. The secondary and more drastic effect of this bill will be to sour potential investors on the prospects of further investment in Guam, capital investment is the seed from which all private enterprise grows. Guam cannot develop a private sector industry without it. The only alternative is to pay for the rising material needs of Guam out of the Federal Treasury. In an era of rising Federal debt, taxpayers in your district as well as others can ill-afford to shoulder this heavy burden.

This pattern should not be allowed to develop. This House long ago recognized the unique and peculiar problems of the territories in attempting to compete with low-wage, unregulated foreign industry. General headnote 3(A) to the Tariff Schedules of the United States has been recognized as an expression of congressional concern for the well-being of private enterprise in the territories. H.R. 1562 revokes this policy and treats the territories as if they were foreign countries for trade purposes. In fact, this bill will subject Guam and the other territories to worse treatment than is accorded Canada, the European Economic Community and the countries in the Caribbean Basin Initiative. The flag territories will be thrust once again into the impossible position of competing with foreign countries for the American import market while being subject to Federal wage, safety and pollution standards. The congressional purpose and intent embodied in headnote 3(A) will have been frustrated. Private industry in the territories will suffer.

This process is already underway. Most recently, the House voted on June 27, 1985 to prohibit American car dealers on Guam from selling 1,200 cars per year to American servicemen in Japan and Okinawa. Guam's American private car dealerships, American insurance companies and American shipping companies will suffer. Jobs, income and tax revenue will be lost. Just prior to this the Federal Aviation Administration grounded one of the primary airlines serving our territory for failure to comply with noise regulations. South Pacific Island Airways subsequently filed for bankruptcy. Since then, mail service has been delayed for as much as two weeks. Needless to say, airline competition and passenger service have declined to the detriment of our economy.

Not so long ago a developing watch industry on Guam and in the other flag territories was stifled in its infancy by administratively imposed import quotas. Our only oil refinery was forced to close in 1983 because Federal regulations which rendered it unable to compete with cheaper foreign refineries.

Now, the fledgling textile industry on Guam, built in reliance on headnote 3(A), is threatened not only by this bill, but also by the U.S. Customs services' new country of origin rules. These rules will subject products of U.S. possessions to prohibitive import duties in contravention of the express policy of headnote 3(A). The inevitable result will be further dependence on federal subsidies to support Guam's economy and increasing disenchantment among Guamanians with Washington's insensitive trade policy.

There is already a small but growing community of young, educated Guamanians who challenge the notion that political union with the United States is desirable. This bill will supply that vocal group with further fuel for their fire.

In the near future I will introduce legislation to propose a new political status, that of a commonwealth, for the territory. A new political order will be sought with the United States based on the premise of mutual respect and equality. We are laying the foundation of that relationship today. Unfortunately, H.R. 1562 clearly indicates that the United States intends to treat Guam in the future as a foreign country.

This change in the course of Federal-territorial relations will hold enormous significance for the strategic presence of the United States in the Pacific region. H.R. 1562 is not a prudent first step in furthering the future political relationship between Guam and the Federal Government. I urge you, therefore, to treat Guam with the respect it deserves as a loyal and strategic territory. Guam and the other flag territories should be removed from the definition of a "country" in this bill.

Chairman GIBBONS. I would agree with you. I do not know why we have made these mistakes and I look forward to working with you to try to straighten them out.

Mr. Frenzel.

Mr. FRENZEL. I want to thank the Delegate for his splendid testimony. You have a bill pending before this subcommittee, do you not?

Mr. BLAZ. Yes, sir; I do.

Mr. FRENZEL. And would that solve the problem?

Mr. BLAZ. Yes, sir; it would in part solve our problem, but only with regard to the threatened imposition of import duties on our sweaters.

Mr. FRENZEL. That is a modest amendment to headnote 3(a) is it?

Mr. BLAZ. Yes, sir; that would protect this very modest industry on Guam to keep it.

Mr. FRENZEL. And how many jobs are we talking about?

Mr. BLAZ. We are talking about 300 jobs, which to the population of Guam is large.

Mr. FRENZEL. How many people in Guam?

Mr. BLAZ. We have 116,000 people, sir.

Mr. FRENZEL. And so even though that does not sound like a lot of jobs, I assume that is one of the major employers?

Mr. BLAZ. It is.

Mr. FRENZEL. Perhaps the major manufacturing employer?

Mr. BLAZ. The only one, on Guam, sir. Uno.

Mr. FRENZEL. Does anybody oppose your bill?

Mr. BLAZ. Apparently some people think that we are a threat to the motherland.

Mr. FRENZEL. I thought that you were a part of the motherland?

Mr. BLAZ. Sir, the more I stay here, seeing what happened to my modest bill to try to ship cars from Guam by American shipment to the United States, the more that I think that Guam is really a colony, and not a territory, but that is another matter.

Chairman GIBBONS. I almost got into a fistfight over that one. I think that you got shafted.

Yes, sir, Mr. Jenkins.

Mr. JENKINS. Thank you very much, for your testimony. I believe existing law today, as far as Customs is concerned, only recognizes Puerto Rico and the District of Columbia.

Mr. BLAZ. Yes, sir.

Mr. JENKINS. Existing law, as far as within. Is that correct?

Mr. BLAZ. That is correct.

Mr. JENKINS. What you want to do is to expand existing law that is now on the books to include Guam, basically, is that correct?

Mr. BLAZ. I am not so sure that I understand your question, Mr. Jenkins. To expand the existing law?

Mr. JENKINS. Puerto Rico and the District of Columbia are the two areas that are treated just like a State from the Customs standpoint. You are not now within that definition?

Mr. BLAZ. No; we are not.

Mr. JENKINS. And you only have the one plant?

Mr. BLAZ. Yes; we have the one plant and it employs 300 people.

Mr. JENKINS. What do you all manufacture there?

Mr. BLAZ. Sweaters for McGregor.

Mr. JENKINS. Is this a sewing operation where you get the sweaters from somewhere else?

Mr. JENKINS. We get the parts from somewhere else and just put together in Guam.

Mr. JENKINS. Where are they from, China?

Mr. BLAZ. Mainland China.

Mr. JENKINS. Thank you, Mr. Chairman.

Chairman GIBBONS. All right, Mr. Pease?

Mr. PEASE. No questions.

Mr. HEFTEL. I want to share my awareness of the problem, and though Hawaii is a State, there are times when we run into problems that are not unlike what you are confronted with. And obviously, when legislation is developed which only impacts on the Pacific Rim, we get very nervous because there are about 3,000 miles between us and the continental United States. And I am optimistic that the committee and the Congress will be sympathetic to the problem that you are posing and I think that we should be able to solve, at least, your problem.

Mr. BLAZ. Thank you very much, Mr. Heftel.

With any persuasion, I could move that we make Guam the third district of your State to get better treatment.

Mr. HEFTEL. I will discuss that with the Governor of Hawaii.

Mr. BLAZ. Unless there are further questions, Mr. Chairman, that concludes my portion here.

Chairman GIBBONS. Fine, thank you.

We are glad that you came.

Mr. BLAZ. Thank you, sir.

Chairman GIBBONS. We have learned a lot about your situation. I have been to your island and I know the unique problems that you have there. There is a great deal of concern that we treat you very fairly.

Mr. BLAZ. Thank you.

Chairman GIBBONS. Now, we go to Levi Strauss & Co., Mr. Peter Phillipes, Mr. Richard Burns, Mr. James Kilgore.

STATEMENT OF PETER M. PHILLIPES, ASSOCIATE GENERAL COUNSEL, LEVI STRAUSS & CO., ACCOMPANIED BY RICHARD BURNS, DIRECTOR OF DOMESTIC AND OFFSHORE CONTRACTING, AND JAMES KILGORE, CUSTOMS MANAGER

Mr. PHILLIPES. Thank you, Mr. Chairman.

We have submitted a full statement which we would appreciate to have entered into the record.

Chairman GIBBONS. All right, fine.

Without objection, your full statement will be entered into the record.

Mr. PHILLIPES. My colleagues and I appear before you today in opposition to the Textile Trade Enforcement Act of 1985. We believe that this proposal will not improve the apparel industry's long-term economic health; may encourage retaliation by our trading partners; and will prevent apparel companies from operating in the American consumer's best interest.

Levi Strauss & Co. is the world's largest manufacturer of branded apparel and has produced high quality garments in the United States for more than 130 years. We are the largest domestic employer of apparel workers, with 26,000 workers in over 60 facilities.

More than 90 percent of the garments that we sell domestically are made in the United States, and are likely to be made here for the foreseeable future.

The original fabric that we used in Levi's overalls in the 1850's, was imported from France. Today, for the domestic market, we rely on American denim and other U.S. made fabric to produce our jeans. We look worldwide, but we have found that when it comes to denim and corduroy, our principle fabrics, domestic textile mills are both competitive and quality conscious.

However, to remain successful, we must be flexible and free to explore new raw material and product sources both here and abroad.

Our opposition to the pending bill is based upon our belief that first, the apparel industry receives substantial protection for imports under present law.

Second, that further protection will prevent apparel companies from providing consumers with the best available product at the best price.

And third, that more desirable alternatives are available to improve the international competitiveness of our industry.

Apparel is one of the basic needs of the American consumer. That consumer expects and deserves value; the best product at the best price.

Levi Strauss & Co. has responded to the needs of its customers by producing a broad range of products efficiently and economically. In most cases, this has resulted in production in or near the market where the goods are sold, but in selected cases, the consumers' needs are better served through foreign sourcing.

A good contrast is provided by Levi's jeans and woven shirts. In the case of basic jeans, our domestic production costs average nearly $3 per unit below that at which we could bring in a comparable garment from one of our own facilities in the Far East, and there is even a greater disparity in terms of the way that we could bring it in from a contractor in the Far East.

Chairman GIBBONS. Give me that again, what is that figure?

Mr. PHILLIPES. Our figure is that it is $3 per unit cheaper to manufacture a pair of our jeans in the United States as against the landed costs that we could bring it in from overseas.

Chairman GIBBONS. Do you plan to elaborate on that?

Mr. PHILLIPES. We can elaborate now or later.

Chairman GIBBONS. Well, I do not want to interrupt the flow of your statement. We can do it later.

Mr. PHILLIPES. All right. We will come back to that because I think that it is a good contrast with the shirt production.

Chairman GIBBONS. That shocked me.

Mr. PHILLIPES. Our woven shirts provide a different result. By producing these garments through contractors in the Far East, we have reduced our production costs by $3 per unit. In each case, the results translate into considerable savings for the retail customer. Conversely, we believe that this legislation would create higher retail prices for many apparel products. It might mean, for example, a $30 shirt as opposed to a $20 shirt.

We believe this legislation will prevent apparel companies from operating in the consumers' best interest by imposing an inequitable quota system, establishing a massive new licensing bureaucracy and we believe more effective solutions can be found elsewhere.

One lies in more efficient internal operation. For example, Levi Strauss & Co. has streamlined its domestic business and invested heavily in new production technology. We faced problems not created by imports, but rather, by changes in market demand. We responded at the production and at the marketing ends of our business.

Today, we are a stronger domestic producer than we were when this investment process began.

The second potential solution is offered by the administration's tax reform proposal. The apparel industry currently pays the highest effective tax rate of any major U.S. manufacturing industry. It averages nearly 40 percent and in our own case, it is more in the neighborhood of 43 percent. Contrast this with the rates paid by the manufacturers in Taiwan, 25 percent; Korea, 21 percent; and Hong Kong, 14 percent. This disparity translates into a wholesale price difference of from 6 to 8 percent. Reduction of the U.S. corporate rate from 46 to 33 percent in the President's proposal, would narrow this competitive advantage for imports.

Another solution is offered by the upcoming MFA negotiations which provide an excellent opportunity to address specific problem areas relating to apparel imports within the framework of our international trade agreements.

There are other arguments as well which indicate to us that this legislation will not solve the apparel industry's problems. Among these, let me note:

First, that the bill's major provisions would force the United States to violate its commitments under the MFA and the GATT, thus exposing the United States to retaliation. I think that was discussed at some length earlier in the hearing.

That the present trade imbalance is more the result of the inflated U.S. dollar and the huge budget deficit than any failure to place further curbs on imports. The unrealistic U.S. limits upon imports from developing countries will set off a chain reaction of protectionism.

And finally, that for many imported garments, there is simply not sufficient domestic capacity to meet market demand.

We share the Congress' concern that the U.S. apparel industry remain viable and competitive in world markets and that domestic jobs be preserved. We differ, however, both with the bill's proponents and some members of our own industry as to the most desirable and effective solutions to the problem.

History has shown that restricting competition is not a long-term solution to the temporary disruptions caused by competitive pressures. One need only look back to the Smoot-Hawley tariff of the 1930's to learn that severe protectionism leads to retaliation, reduced exports, and ultimately a slump in domestic production and unemployment.

There are better ways to preserve and protect the economic health of the American apparel industry. None requires sacrificing the interests of the American consumer or the obligations of the United States under international agreements.

Mr. Chairman, we trust that you and the members of this subcommittee will thoroughly examine the alternatives and we hope that your conclusion, like ours, will be that this legislation is neither necessary nor desirable. We will be pleased to respond to any of your questions.

[The prepared statement follows:]

STATEMENT OF PETER M. PHILLIPES, ASSOCIATE GENERAL COUNSEL, LEVI STRAUSS & CO.

SUMMARY OF PRINCIPAL POINTS IN TESTIMONY OF LEVI STRAUSS & CO.

Levi Strauss & Co. opposes S. 680 because the bill will not improve the apparel industry's economic health, may encourage retaliation and is not in the American consumer's best interest.

History has shown that protectionism inevitably leads to retaliation, reduced exports and ultimately a slump in domestic production and unemployment.

The American apparel industry already receives substantial protection from imports under present law. Eighty percent of apparel imports are subject to quota restrictions. Duties average 22.3 percent and a market disruption mechanism exists to prevent uncontrolled import growth from new supplier nations.

The American consumers should be offered the best apparel products at the best price. A program of flexible sourcing enables an apparel company to shop the world to find the best value. Further protection will prevent apparel companies from doing this.

More desirable alternatives are available to improve the international competitiveness of our industry and preserve domestic jobs:

Apparel companies first must commit sufficient resources to insure that their organizations are operating at a high level of efficiency.

Second, adoption of the President's tax proposals will remove a significant competitive advantage enjoyed by many foreign apparel producers.

Third, the upcoming MFA negotiations offer an excellent opportunity to address specific problem areas relating to apparel imports within the framework of our international trade agreements.

Finally, we believe that reduction of the federal budget deficit and the overinflated U.S. dollar are far more likely to improve our industry's long term economic health than are further curbs on imports.

My name is Peter Phillipes. I am Associate General Counsel of Levi Strauss & Co. I am accompanied by Mr. Richard Burns, Director of Domestic and Offshore Contracting and Mr. James Kilgore, Customs Manager.

I am appearing before you today in opposition to H.R. 1562, The Textile and Apparel Trade Enforcement Act of 1985. Levi Strauss & Co. believes that this proposal will not improve the apparel industry's long-term economic health, may encourage harmful retaliation by our trading partners and will prevent apparel companies from operating in the American consumers's best interests.

Levi Strauss & Co. is the world's largest manufacturer of branded apparel. The Company has produced high quality garments in the United States for more than 130 years.

We are the largest employer of apparel workers in the United States, with 26,000 workers in over 60 domestic facilities. Each year these workers produce more than 150 million garments for sale primarily in the U.S. We employ an additional 11,000 workers in other operations around the world. They produce approximately 35 million garments for sale primarily outside the U.S.

We produce apparel in more than 40 countries and market our products in 30 countries around the world. However, more than 90 percent of the products we sell domestically are "Made in the U.S.A." and are likely to be made here for the foreseeable future. The remainder are sourced offshore.

Our product mix includes not only our famous jeans, but also mens, womens and childrens jackets, slacks, shirts and sweaters. We also have a role in the designer apparel business with lines created by Perry Ellis, Alexander Julian and Andrew Fezza. Our annual sales volume is in excess of $2.5 billion. $2 billion of this is sold in the U.S.

An international approach to our business is nothing new. The original fabric used in miners overall in the 1850's was serge de Nimes (denim), a strong cotton cloth loomed in France. The then new fabric was sewn in the U.S. to produce the first Levi's ® blue jeans. Today, for the domestic market, we rely on American denim and other U.S. made fabric, such as corduroy, to produce our jeans. To make the best jeans, we look worldwide, but we have found that when it comes to denim and corduroy, domestic textile mills continue to be both competitive and quality conscious.

To remain creative and a leader in our industry, we search the world for new products and new fabrics, for we are more than a jeans company. Levi Strass & Co. produces a wide variety of apparel for all age groups and life styles. Many of the fabrics we use for these non-jeans products are from U.S. mills, but some ar not; often because domestic mills decline to produce the short runs of more specialized fabrics that are required for fashion garments. Most of the non-jeans products we sell in the U.S. are sewn here as well, but some are not. We believe, that to be successful in one of the most competitive industries in the world, we must be free to explore new raw material and product sources both here and abroad. In this way we insure that our customers are offered products which are innovative, of high quality and represent the best possible value.

Our opposition to HR 1562 is based upon our belief that:

(1) The apparel industry receives substantial protection from imports under present law;

(2) Further protection will prevent apparel companies from providing consumers with the best available product at the best price; and

(3) More desirable alternatives are available to improve the international competitiveness of our industry.

PRESENT CONTROLS ARE ADEQUATE

The American apparel industry has operated under a heavy blanket of protectionism for many years. As the Administration noted in a recent letter to the Congress, 80 percent of all imports from low cost suppliers already are under quota and duties average 22.3 percent.

In the case of mens cotton trousers, a category with which we are very familiar, 78.4 percent of U.S. imports are under quota. Trousers made from synthetic and blended fibers are protected at an even higher level.

Similar figures can be found in other segments of the apparel industry. For example, 80 percent of imports of mens woven cotton shirts are under quota. So are 73.3 percent of womens cotton blouses and 96.1 percent of mens synthetic knit shirts. There hardly seems a need to further restrict imports in these categories.

There also exists a market disruption mechanism under present law by which the Administration can prevent uncontrolled growth from new supplier nations. Under that mechanism, more than 300 quotas have been established since 1981.

H.R. 1562 would significantly rollback current import levels and severely limit expansion by imposing very low growth levels on most developing countries. Virtually no growth levels would be available to our more established apparel trading partners. In addition, the bill would place our neighbors in the Caribbean Basin at a particular disadvantage. Since apparel imports from the Caribbean are comparatively low, the special 15 percent annual growth rate for 1985, with 6 percent thereafter would do little to encourage further production in this region.

The licensing system under the bill would force every importer of every product from every country including Canada and the EEC to obtain an import permit before any apparel product could be landed. For the U.S., such a system would be unprecedented and would cause substantial disruptions in the flow of imported products for both large and small companies. Even the Secretary of Commerce, in whose department the massive new bureaucracy would reside, has unequivocally registered his opposition.

We believe the government already is administering a program to control import levels, under the provisions of the MFA, which can provide an adequate level of protection for domestic apparel producers. Further controls are unnecessary.

THE NEEDS OF THE CONSUMER

Like food and shelter, apparel is one of the basic needs of the American consumer. A significant portion of family income is devoted to apparel purchases, both for reasons of necessity and to express individuality. Consumers worldwide, and the American consumer in particular, have become increasingly demanding with regard to their apparel purchases. They expect and deserve value—the best product at the best price. As a marketing oriented company, Levi Strauss & Co. has attempted to respond to the needs of its customers by producing a broad range of products efficiently and economically. In most cases, for us, this has resulted in production near or in the market where the goods are sold; but in selected cases, the consumers' needs have been better served through foreign sourcing.

A good contrast is provided by Levi's jeans and woven shirts. In the case of basic jeans, we have determined that our domestic production costs on average are nearly $3.00 per unit below that at which we could bring in a comparable product from one of our own facilities in the Far East and $3.50 below the price at which we could obtain it from a Far Eastern contractor.

Woven shirts provide a different result. By producing these garments principally through contractors in the Far East, we have been able to reduce our production cost by over $3.00 per unit. In each case the results translate into considerable savings for the retail consumer.

Perhaps Levi Strauss & Co.'s approach can best be described as one of flexibility. To the extent we can remain flexible and effectively shop the world for the best value, the consumer's interest in the best product for the best price can be protected. And, of course, if we fail to manage our business in this manner we quickly will find our customers moving to other apparel suppliers.

We believe HR 1562 will prevent apparel companies from operating in the consumers's best interest. It will impose an inequitable quota system, which unrealistically restricts sourcing options. Even production under Tariff Item 807, which was intended to encourage U.S. producers to utilize U.S. fabric in offshore operations, would be affected adversely. Many of these operations are in the Caribbean Basin. Furthermore, the massive new licensing bureaucracy within the Department of Commerce can only aggravate the problems created by the existing methods of quota allocation.

OTHER OPTIONS ARE AVAILABLE

More effective solutions can be found elsewhere without damaging international trading relationships. We believe our industry thrives on competition. It is an industry where entry is easy, employment is substantial and domestic producers number in the tens of thousands. One solution lies in more efficient internal operation. For example, over the past five years Levi Strauss & Co. has streamlined its domestic operations and invested hundreds of millions of dollars in new production technology to become more efficient, and thus more competitive. These investments have increased our efficiency in an amount equal to one new plant per year. We faced problems not created by imports, but rather by changes in market demand. We responded both at the production and at the marketing ends of our business. Today we are a stronger domestic producer than we were when this investment process began.

A second potential solution is offered by the Administration's tax reform proposals. As noted in our industry's testimony before the Ways & Means Committee on June 27, the apparel industry currently pays what we believe to be the highest effective tax rate of any major U.S. manufacturing industry. It averages 39 percent. Many companies, like Levi Strauss & Co., pay an even higher rate.

Contrast this with the rates paid by manufacturers in the major apparel exporting countries. For example, the effective tax rate in Taiwan is 25 percent. In Korea it is 21 percent and in Hong Kong only 14 percent. This rate disparity translates to a wholesale price difference of 6 to 8 percent. Reduction of the domestic corporate tax rate from 46 to 33 percent under the terms of the President's proposal would go a long way toward eliminating this competitive advantage for imports.

The upcoming MFA negotiations offer an excellent opportunity to address specific problem areas relating to apparel imports within the framework of our international trade agreements. For the short-term we believe that extension of the MFA in a format similar to the one under which it now operates, but with a commitment by signatory nations to strictly and consistently adhere to its principles and terms, will provide sufficient control to insure the stability of apparel markets as we move toward a more realistic system of world trade.

ADDITIONAL REASONS WHY HR 1562 SHOULD NOT BE ADOPTED

There are other arguments, as well, which indicate to us that the proposals encompassed in HR 1562 will not solve the apparel industry's problems:

(1) We have no doubt, nor does the Administration, that the bill's major provisions would force the U.S. to violate its commitments under the Multi Fiber Agreement and the GATT, thus exposing the U.S. to retaliation.

(2) We agree with the U.S. Trade Representative that the present trade imbalance is more the result of the over-inflated U.S. dollar and the huge budget deficit than any failure to place further curbs on imports.

(3) If the U.S. establishes unrealistic limits upon imports from developing countries, these nations are likely to dump products into the EEC, which in turn will be forced to adopt new limits on imports, thus setting off a chain reaction of protectionism.

(4) For many imported products, such as full fashioned wool and acrylic sweaters, embroidered blouses, and garments made from silk there is not sufficient domestic capacity to meet market demand.

We share the Congress' concern and that of the American Apparel Manufacturers Association that the domestic apparel industry remain viable and competitive in world markets and that domestic jobs be preserved. We differ, however, both with the bill's proponents and some members of our own industry as to the most desirable and effective solutions to the problem.

History has shown that restricting competition has never proven itself to be a long-term solution to temporary disruptions caused by competitive pressures. One need only look back to the Smoot-Hawley tariff of the 1930's to learn that severe protectionism inevitably leads to retaliation, reduced exports and ultimately a slump in domestic production and unemployment.

We doubt neither the sincerity nor the concern of those supporting this legislation. However, we believe there are better ways to preserve and protect the economic health of the American apparel industry. None of these requires sacrificing the interests of the American apparel consumer or the obligations of the United States under international trade agreements.

Mr. Chairman, we trust you and the members of this subcommittee will thoroughly examine the alternatives and we hope your conclusion, like ours, will be that this legislation is neither necessary nor desirable.

Chairman GIBBONS. Well, let us go back to the jeans.

You mean you can make jeans in this country cheaper than you can import them from overseas?

Mr. PHILLIPES. That is correct. The landed costs if we made it overseas as against the costs that we can manufacture it in one of our plants in the United States differs by about $3 a unit. Now, you add the markups to that, the wholesale and the retail markups to that, and you are probably talking about again, a $20 as against a $30 retail in many cases, because you have got about a 40 percent manufacturer's markup and about 100 percent retail markup in the normal case.

Chairman GIBBONS. Well, I know that you are experienced in manufacturing jeans, and you have got a good reputation for manufacturing good jeans, but what do you attribute to this ability to make jeans cheaper here than you can import them? Aren't the labor costs higher, and the taxes higher?

Mr. PHILLIPES. The labor costs are somewhat higher and the taxes are higher. We have particularly efficient operations with regard to our jeans production. You are talking about long runs of products and our textile costs are somewhat competitive here. There is duty, of course, on the goods that we land from overseas and that picks up a portion of the cost difference. When you put all of that together with that fact that we have literally a hundred or more year's of experience in this product, we have been able to efficiently produce it here, and we do not see any likelihood that that is going to change in the foreseeable future.

We expect to be making the majority of all of our products in the United States, certainly in our immediate lifetime.

Ninety percent of the products, and about 90 percent of all the jeans that we make are done here.

Chairman GIBBONS. That is amazing. I did not realize that.

Mr. PHILLIPES. And we have basically only gone offshore where we could not do it competitively here or where there was a special, truly special advantage for the consumer and shirts is probably the best example.

Chairman **Gibbons**. Now, why is that? That interests me.

Mr. **Phillipes**. Well, with shirts, we had maintained three domestic facilities to produce them and we stayed in that business domestically as long as we could, but we found that we could more efficiently produce them overseas even given the duty. We would go into a contract facility in Korea, for example, and the quality of the workmanship is very high. We are in the sportshirt business, not the dresshirt business, so that we are talking about shorter runs of fashion type fabrics, for instance, checks and plaids and what have you, and a lot of those are not produced very economically in the United States. Very often we will make a request of a U.S. textile manufacturer for a short run and I think that it is similar to the point that Mr. Heftel made earlier, and we cannot get that here.

So that we found that all things considered, it is a more economical operation over there. We costed it out and finally shifted the production of one plant in 1983, one in 1984, and one early this year. But that is the only major product line that is done overseas.

Chairman **Gibbons**. Do the cost of these quotas run up the price of these jeans? Somebody told me that the cost of the quota in the jean was a substantial amount of the cost of an imported jean, is that correct?

Mr. **Phillipes**. It is a significant amount. Mr. Burns could probably give you the exact figures, because he works in that area.

Chairman **Gibbons**. Do you know what it is a pair?

Mr. **Burns**. Currently it is about $14.50 a dozen.

Chairman **Gibbons**. A dozen, that is about $1.25 a pair?

Mr. **Burns**. Yes, sir.

Chairman **Gibbons**. That goes to somebody sitting around in a hotel over in Hong Kong, or some place?

Mr. **Phillipes**. Probably so.

Chairman **Gibbons**. Might not even own a plant.

Mr. **Burns**. On top of that, a licensing system would definitely inflate the price of the product to the consumer.

Chairman **Gibbons**. Yes.

Mr. **Frenzel**. If $1.25 has got to go into the price of jeans laying in, that has got to be marked up.

Mr. **Phillipes**. That is correct, there would be a markup on any landed costs.

Mr. **Frenzel**. So you have got to pay duty on the $1.25, and you have got to——

Chairman **Gibbons**. On the $1.25.

Mr. **Frenzel**. You have got to pay insurance on the $1.25, and you have got to mark it up.

Mr. **Phillipes**. That is correct.

Mr. **Frenzel**. So it becomes more than the $1.25.

Mr. **Phillipes**. Oh, by the time that it reaches the consumer, it is about several times that amount.

Mr. **Frenzel**. So it could be $2 instead of $1.25?

Mr. **Phillipes**. At least that.

Mr. **Frenzel**. Thank you, Mr. Chairman.

Chairman **Gibbons**. Oh, excuse me, Mr. Jenkins?

Mr. **Jenkins**. Thank you very much, Mr. Phillipes, for your testimony. I am very familiar with your company, I have your plant in my district.

I disagree with you as does most of your industry, I believe.

Mr. **Phillipes**. I would say that the majority of companies of our industry have taken a different position, but there are companies that support our point of view.

Mr. **Jenkins**. You belong to the American Apparel Manufacturer's Association?

Mr. **Phillipes**. That is correct.

Mr. **Jenkins**. What position have they taken?

Mr. **Phillipes**. We are well aware that they have testified in support of the legislation. Mr. Boswell, their president, and I speak about these issues and others, virtually every week.

Mr. **Jenkins**. Let me pursue this because it is very interesting and I am familiar with your jean operation and some of your other operations. In addition, jeans make up the major share of your manufacturing operation, do they not?

Mr. **Phillipes**. They are the single biggest product line, but we are a major factor in a number of other product lines as well; we are a very large company.

Mr. **Jenkins**. You make sportshirts and children's wear?

Mr. **Phillipes**. Right, and men's slacks, and women's coordinates, women's separates, and we have a hat company and we make men's suits. We license our brand for socks and shoes so that we are in probably the majority of the American apparel industry in one form or another.

Mr. **Jenkins**. Of all apparel items that you are involved in, jeans happen to be the least labor intensive of any of them, is that not correct?

Mr. **Phillipes**. I doubt that they are the least labor intensive, of any. I would say that they are on the lesser labor intensive side. They are not as labor intensive as shirts, for example.

Mr. **Jenkins**. Is that the reason that you do most of your shirts from offshore?

Mr. **Phillipes**. No. There are other factors beyond simply the labor input. The fabric availability was preferrable for the kinds of fabric that we needed. The fabric was better found there then we could get here.

Mr. **Jenkins**. But is it not correct, Mr. Phillipes, and correct me if I am wrong, that most of the items that you are having done offshore are very labor intensive as compared to jeans, are they not?

Mr. **Phillipes**. They are somewhat more labor intensive. Jeans are not that low in labor content. I mean, if you walk into a typical jeans plant, you will see row upon row of operators who are at sewing machines and pressers and what have you, so that typical jeans plant would employ 300 or 400 people. And we have some larger than that.

So there is a lot of labor in what we do in almost any product line.

Mr. **Jenkins**. Well, it appears to me that jeans, because of the good reputation and marketing that everyone knows about Levis, that obviously, that one category line of products is your most attractive product from the standpoint of profit. is it not?

Mr. **Phillipes**. That is probably correct.

Mr. **Jenkins**. Do you make any item of clothing that is more labor intensive, I mean, that is less labor intensive than jeans?

Mr. **Phillipes**. Perhaps the hat production might be less labor intensive, although it is probably close. The slack production is going to be very similar.

Mr. **Jenkins**. You make the slacks here?

Mr. **Phillipes**. Yes, we do.

They are made in Arkansas.

Mr. **Jenkins**. Do you make the hats here?

Mr. **Phillipes**. Yes, they are made in Texas.

Mr. **Jenkins**. Are there any others that are less labor intensive?

Mr. **Phillipes**. Mr. Kilgore mentioned knit shirts, which we make through contractors largely in the United States, and those are less labor intensive.

Mr. **Jenkins**. You have 12,000 people now in foreign operations?

Mr. **Phillipes**. We have about 11,000 people in foreign operations. Those people are there to basically serve foreign markets. What we are making overseas, the vast majority of that goes to the various overseas markets. We are not using 11,000 people to import products into the United States.

Mr. **Jenkins**. Are you sending any of those products into the United States?

Mr. **Phillipes**. From our own plants overseas? We are sending a small proportion. It is a very small proportion and it is usually to cover surges in demand. We occasionally will bring in some from Mexico, from plants there. We might bring some in from Canada, and occasionally from the Far East, but as a regular matter, very little comes in.

Mr. **Jenkins**. You have no problem whatsoever with what we do with cut and sew operations as far as bringing the finished product back here? That would not concern you at all?

Mr. **Phillipes**. Well, I think——

Mr. **Jenkins**. I mean, we may need to tighten those up and I just want to know.

Mr. **Phillipes**. Are you talking about an 807 type of operation?

Mr. **Jenkins**. Yes.

Mr. **Phillipes**. I think that we look upon 807 as a possible opportunity, as an alternative to the Far East where you could do some of the 807 operations in the Caribbean. And to the extent that that is tightened up, that is going to take away another sourcing option. We would not expect it to increase our imports by having the 807 available, but it might allow us to shift that back and forth and make a more economical buy sometimes.

Mr. **Jenkins**. Now, that you are closing plants even with the reputation that you have—I believe that you just closed two in Texas, did you not, this week or last week?

Mr. **Phillipes**. We closed two distribution centers about 3 weeks ago.

Mr. **Jenkins**. I know that you have cut down in my area and I was just—in Blue Ridge, GA, and——

Mr. **Phillipes**. Let me give you a little background on our plant closings.

We went through a major reorganization of our production facilities about a year or so back. We had determined that we had more plants than there was demand for our product. We just had overcapacity. And we closed a group of plants in the United States and we consolidated where we could and we were able to pick up the employees in many of the existing plants.

We also, at the same time, closed a comparable number overseas because we had the same softening demand overseas. So it was not a transferring of foreign production for U.S. production. It was a major overhaul of the company that just kind of cut us down to an operational size that was going to be efficient.

Mr. JENKINS. What percentage of your production of jeans are sold in this country, percentagewise?

Mr. PHILLIPES. Of all the jeans that we make?

Mr. JENKINS. Yes.

I am not talking about dress slacks, I am talking about primarily jeans, now, which is your biggest item, I understand.

Mr. PHILLIPES. I would say that of all of the jeans that we make all over the world, probably between 65 and 70 percent would be sold here. The ones that are sold overseas are basically made there. And the ones that are sold here are basically made here.

Our basic figure is 90 percent of jeans and jeans related products, ~~and if~~ you were to remove shirts, which we consider a jeans related product, 98 percent of the jeans that we sell in the United States are made in the United States.

Mr. JENKINS. I did not understand.

If you remove——

Mr. PHILLIPES. Well, when I use the figure 90 percent of our jeans and jeans related products that we sell in the United States are made in the United States, if we remove shirts from that figure, because we consider shirts as a part of our jeans company, then the figure would go up to 98 percent. So that of all the jeans that we sell in the United States 98 percent of them are made in the United States.

Mr. JENKINS. Well, what is the figure that you just gave me on the 65 percent?

Mr. PHILLIPES. That is of all the jeans that we make worldwide. I thought that your question was, how many jeans do we make all over the world?

The remaining jeans would be sold in those countries where we make them. We have plants in France that supply France, and we have plants in the Philippines that supply the Philippines.

Mr. JENKINS. Where are most of your offshore operations located?

Mr. PHILLIPES. They are all around the world.

We have them in Europe, we have them in South America, in Mexico, in Canada, in the Far East and Hong Kong. They are pretty well spread out.

Mr. JENKINS. So you are already hindered somewhat, I guess with, as you indicate with the duties and so forth and bringing goods back into this country?

Mr. PHILLIPES. Well, on any products that we bring in, the duties certainly have an impact and that has to be factored in.

Mr. JENKINS. I do not want to pursue this.

Chairman **GIBBONS**. Thank you.

Mr. Heftel.

Mr. **HEFTEL**. I have been trying to pursue some knowledge about this question of the short production run. I had not anticipated that I would find you in that same category.

What would be a short production run in yards from a supplier of fabric that you might order? What would be an example of a small one?

Mr. **BURNS**. A thousand yards would be a short run.

Mr. **HEFTEL**. So when we are talking about short runs as much as 3,000, which is what Hawaii was discussing with me, this is not necessarily unusual in the manufacturing of garments, in the country, is that correct?

Mr. **PHILLIPES**. Not in our experience, no.

Mr. **HEFTEL**. Well, let us pursue that if we may for a moment, because I think it is very significant from our standpoint.

We feel that Hawaii would be put out of business if it had to go to the American manufacturer for that 90 percent of the fabric that we now buy from Pacific Rim nations. And I had assumed that that was somewhat a product of our ability to do any kind of volume production.

Now, you are telling me that you go down to 1,000 yards. What position would you be in, in terms of manufacturing, if you no longer had access to any foreign sources in terms of your fabric production? You had to only use domestic and they did business as they do now, they did not change?

What would it do to your ability to produce and sell garments?

Mr. **PHILLIPES**. It would eliminate our woven sportshirts business for starters. It would probably heavily impact some of our women's coordinates and separates business. And it might have some impact on our children's shirt business. It would not impact our jeans business.

Mr. **HEFTEL**. So to the extent that we are talking about your non-jeans business, it would put a significant percentage of the total out of business?

Mr. **PHILLIPES**. Yes, and probably our Oxxford Suit Co. up in Chicago, which was a company that we acquired a few years back and has been running for many, many years, would be eliminated, because a lot of the woolens are imported woolens and that is something that is not duplicatable in the United States.

Mr. **HEFTEL**. So that part of what this bill does is it simply puts people out of business, reduces jobs and does nothing to give additional business in part, to American manufacturers, because they are not going to be competing for the business, I gather are not capable of competing for the business?

Mr. **PHILLIPES**. We would certainly agree with that, yes.

Mr. **HEFTEL**. And so, there is a side to this legislation, Mr. Chairman, which I think has to be analyzed because what it does in part is to put people out of work and we do not even know if it puts more people out of work than the jobs that we are trying to save in the first place and if it impacts on folks like Levi, then how do we get information across the country from manufacturers, perhaps we already have it and I do not know it, about what volume of all of the manufacturing business of apparel would simply go out of business without access to what the foreign manufacturer of fabric is willing to do that the American manufacturer either cannot or will not do?

Mr. PHILLIPES. I think that is a very good question.

I do not know that those figures have been compiled. For our business, it would hurt us and it probably would result in a net reduction in jobs in our company and there are other companies. We have had discussions with the people from the General Mills apparel group, and they share our view on this as well and they have similar kinds of problems in their sportshirt business.

Mr. HEFTEL. I think that it becomes very significant, Mr. Chairman, when you recognize that this is legislation which would have a net loss of jobs, unrelated to whatever it does for the industry as a whole. And we have to somehow target that, and I am not sure how we will address it yet, but we will certainly have to have that knowledge, before we move ahead thinking that we are preserving jobs, only to find that we are losing jobs of an unknown, at this time, magnitude, but certainly in Hawaii I know what the magnitude is.

Thank you very much.

Chairman GIBBONS. Thank you, sir.

Mr. Campbell.

Mr. CAMPBELL. Thank you, Mr. Chairman.

Let me tag onto that for just a minute for some information.

Is your problem in your short run, is that from the inability to dye the product, or is it the ability to run the product, itself?

Mr. PHILLIPES. We have gone in and requested that mills make short runs for us and they have told us that it is not economical for them to do it, and they have turned us down.

I had a merchandiser in my office a couple of weeks ago and we wrote up a contract for a short run and we presented it to the mill and they rejected it.

Mr. CAMPBELL. I have noticed that two or three small mills have opened strictly doing business in short runs, and two or three dye houses opened, and have you seen any emergence in that?.

We have noticed some versatility in short runs and some movement especially in smaller companies?

Mr. PHILLIPES. Not enough to be really responsive to the demands that we have. I mean that would be helpful to us in some produce lines. If we can buy it here, we would just as soon buy it here. We look here first and then we go overseas when we cannot find it here.

Mr. CAMPBELL. When you place an order with someone here, domestically, do you—we have noticed especially in the retail industry, and of course, you are not, but I am asking this question—do you give your domestic supplier the same leadtime for an order that you give a foreign supplier?

And do you give them the same payment schedule that you would give a foreign supplier?

Mr. PHILLIPES. Well, we are a little unique in that respect. Most of our domestic production is done in our own plants, so that of necessity, we can produce it faster in our own plants and we have much, much better control.

Mr. CAMPBELL. You produce your own cloth, too?

Mr. **Phillipes**. No, not our cloth. I am sorry.

As far as the cloth goes, the leadtimes are pretty similar.

Mr. **Campbell**. You would give similar leadtime, do you give them the same payment schedule or do you pay cash on delivery on your foreign contracts?

Mr. **Phillipes**. I am not exactly sure what the payment schedule is. But a lot of these are negotiated overseas and I think that there is a lot of similarity. Dick might be able to expand on that.

Mr. **Burns**. Typically overseas, we would buy on a package basis, where we would have the fabric as a part of the manufacturer's product all at one price.

Domestically, we supply fabric separately and pay on a net 30 terms.

Mr. **Campbell**. We have found, after doing a little bit of research that a lot of our big retailers in America, if they place orders overseas give a much longer leadtime, first, and second, pay on delivery whereas, domestically they give a shorter leadtime and they have a 30-day or longer billing. That means, of course, that they run up the cost of buying domestically.

Have you found that in any of the retailers that you sell to? How do you sell to your retailers?

Mr. **Phillipes**. We sell to our retailers on one set of terms, basically a net 30 set of terms.

We have one set of terms for all of our accounts and we sell only directly to retailers, and we have our own factoring operation.

Mr. **Campbell**. Well, this has been a problem and it has been pointed out to us by many people that they could not order cloth and make goods as cheaply because of the difference in the way that they were ordered or paid.

Would you think that is a problem that we should look at?

Mr. **Phillipes**. It is not a problem that has really come into our business. I mean to the extent that it appears in other businesses, certainly I am sure that it is worth the committee looking into but I do not think that it is related to the way that Levi Strauss has done business.

Mr. **Campbell**. If this legislation that we have should pass, would you fear that there would be retaliation against your product in other countries since you are a multinational company that is American-based?

Mr. **Phillipes**. As far as the retaliation, where we are producing in the country, we do not fear that. What we fear is that there will be more quotas and more restrictions around the world and it will work to the general detriment of the industry. But if we are producing within France or within the Philippines and selling right there, we do not fear that type of retaliation.

Mr. **Campbell**. Is your product made in America capable of being competitive against a product made in another country from an export standpoint?

In other words, if you made your jeans here in America, and someone else owned your plant overseas, could you export and compete against them?

Mr. **Phillipes**. We could probably do it more efficiently over there, all things considered. We have a small export business in our jeans, but over time, we have found that it is more effective, we are more responsive to the market demand if we are right there and that is the way the business was structured over the years.

We probably could reexamine and increase the export share but as I say, traditionally we felt that we wanted to be in the market and be right there, and be, in effect, a national operation of a multinational company.

Mr. CAMPBELL. Overall is your cost of production for jeans in America cheaper or more expensive than your foreign cost of production?

Mr. BURNS. The actual efficiencies that we have in our factories domestically are very comparable to our offshore facilities from the actual content of the product and the labor that goes into it.

The American companies, when you import it into this country, we pay the duties and the freight and the insurance and so forth.

Mr. CAMPBELL. If you came out of your plant, let me pose it a little differently, you have got a plant, I do not know, you said that you have got a plant in Hong Kong and that you make blue jeans there?

Mr. PHILLIPES. Yes, sir.

Mr. CAMPBELL. OK, you have got a plant in Hong Kong and you are buying your cloth from the People's Republic of China and you are making a plant there with labor, what is your cost per unit of the jeans produced there, versus your cost say in the Texas plant?

Mr. PHILLIPES. Our cost there would be $8.51 net, and the cost in the Texas plant would be $5.67 a unit.

Mr. CAMPBELL. You are able to produce that cheaper in the United States than you are in Hong Kong, and you are buying your cloth over there, too?

Mr. PHILLIPES. Yes, the cloth is probably from Japan or some place like that.

Mr. CAMPBELL. You have mentioned that you have 60 U.S. plants and 40 foreign plants, or that you operate in 40 foreign countries?

Mr. PHILLIPES. Yes, we are manufacturing in 40 foreign countries and we directly market in about 30 and we indirectly market in about 40 more than that.

We have about 60 domestic plants.

Mr. CAMPBELL. There are 60 U.S. facilities producing what percentage of your overall sales?

Mr. PHILLIPES. About three-quarters.

Mr. CAMPBELL. 11,000 people who work for foreign facilties, only produce about one-quarter of your overall sales.

Mr. PHILLIPES. Roughly speaking. There is a little contract production on both sides, but that is fairly close.

Mr. CAMPBELL. What is the balance in your export of U.S. made goods exported to other countries, versus your balance of goods produced in other countries imported into the United States?

Mr. PHILLIPES. We import about 15 million units a year, of a total production of about 200 million units. We export $14 million worth, so we are probably talking maybe a million-and-a-half units. So the net importing would be about 13, 13½ million units.

Mr. CAMPBELL. So you import on a 13 to 1 ratio.

Mr. PHILLIPES. In terms of what we import that is right.

Mr. CAMPBELL. That kind of points up, you know, some of the problems we see in the general industry. Everybody does not have plants overseas, and I think that even in your own industry, your own company, you will see a 13 point ratio, it gives concern to what we are trying to deal with. I appreciate very much your testimony.

Mr. HEFTEL. Would the gentlemen yield just for a second.

Chairman GIBBONS. Go ahead.

Mr. HEFTEL. I just wanted to target the one question you posed about the leadtime or method of payment. I wanted to point out that in Hawaii at a given point in time, be it 5 years ago or longer, the industry in searching for a way to develop the fabric, to in turn develop the competitive garment, was open to all manufacturers, all sources. And what made the difference was totally unrelated to leadtime or method of payment, but rather the availability of a given type of fabric in a short run, as it has been described, for American manufacturers who simply did not want to discuss even trying to compete, and that the only source—because 90 percent of the source is Pacific Rim—was foreign production of the fabric. And so if this is repeated in the mainland U.S.A, and that is why this now becomes so critical, we are now talking about a tremendous source of increase, if Hawaii is typical, that has occurred in this period of time when we double our foreign import. Due to the fact that they are doing things that the American manufacturer either will not or cannot do, and therefore, this difference is not a product of the unfair type of competition for foreign underwriting of cost production and so on, but rather simply, what their plants will do versus what our plants will do.

Mr. CAMPBELL. I thank you, gentlemen. I would only put it in the past tense. Instead of will not or cannot, I think would not or could not might be better. I think that the American textile plants might have been like the Ford automobile assembly line or Bell Telephone; you could have all the diversity that you wanted as long as they were black and they were the same style. And I think that we have probably followed the mentality in this country of everybody else; it was how cheap can you produce what we want to produce and in what large volume in the production line.

And I think your point is well taken. I do think, however, that the industry is moving to versatility, and I hope that that problem, you know, is one that would not follow. But I think your point is extremely well taken. We cannot, we must not, in any way, jeopardize the situation that you have outlined, and I would certainly be very supportive of any effort to make sure that we did not do that.

I would point out to the gentlemen, though, something I found extremely interesting. There was a company in America called Wallmart Co., but I went down there to see how they purchased and what they did. They have an effort going to try to buy goods that are made in America and sell goods that are made in America. They were manufacturing—and Ed Jenkins can correct me if I am wrong—but I believe it is a flannel shirt and they were importing them all. They could not have anybody here in this country that could compete, would not make the cloth, could not make the cloth. And finally, the man that owned the company, Mr. Walton, went out to see a small manufacturer, and he said, "What would it take for us to compete?" And the manufacturer said, "Well, sir, if you would give me the year's leadtime and the volume purchased the same as you would give overseas company and pay me on delivery, a 30-day billing, I will see if I can get my price down and compete." The net result is that by placing your order, bringing the price down, and pushing up the payment, he was able to cut his costs, and now that same shirt that was bought overseas and imported is now manufactured, if I understand correctly and Ed Jenkins will tell me if I am wrong or right, in Arkansas, and they have expanded and doubled the plant there because of the purchase and contract time. And so there was some impact as to whether they could or could not compete. That was the reason I raised that point

But I certainly recognize what you are talking about, and I am very sensitive to it.

Mr. HEFTEL. There is a distinction totally from what you have described.

Mr. CAMPBELL. Absolutely.

Mr. HEFTEL. It is a case of a pattern of doing business—that which is I need 1,000 or 3,000 or 6,000 square yards run. I need it done this way, this way, and this way, and a source in the Pacific Rim countries sitting down and doing this as a manner of normal course of business, and the American manufacturer basically is saying, as I have interrogated the folks at home, saying, "sorry, we just do not do that sort of thing," end of discussion. Whether they can or not, I simply do not know, but my indication is more a case of not wanting to try to do it than being able to do it.

I wonder if the gentleman could give us some insight there, whether you think the American manufacturer could if they wanted to compete for the 1,000 or the 3,000 run with the multicolor differentials that have to be accommodated.

Mr. PHILLIPES. I think a portion of it they could certainly compete for, because some of the things that we have asked for, we know that they are physically able to make.

Mr. HEFTEL. But they would like not to.

Mr. PHILLIPES. But they would like not to. Some of the fabrics are unique fabrics that are only available in the Orient, for example, but there certainly is a portion that could be done here if they wanted to.

Mr. HEFTEL. Thank you very much.

Mr. CAMPBELL. The portion they can compete for, and I would agree with that, I think the portion has to do with the versatility of the changeover of their looms; the cost of changing a loom is extremely expensive, especially on your old looms and shuttle looms, and setting them up. And I think probably they just wrote off a good segment of business instead of trying to compete.

I do think with their modern equipment and facilities that they are more versatile and will be able to, but regardless of whether they can or cannot, I am very sensitive to what you raised.

Mr. HEFTEL. Thank you, Mr. Campbell.

Mr. JENKINS. Let me ask one other question just to follow up on Mr. Campbell's question. I know we have other witnesses, but did I understand you to say that you make 200 million units.

Mr. PHILLIPES. Yes, that is correct. Approximately 200 million a year all over the world.

Mr. Jenkins. How many of those are jeans?

Mr. Phillipes. Again, we are probably talking somewhere two-thirds to 70 percent of those, about 150 million, a little less, about 135 million, in that range.

Mr. Jenkins. And all of those are made here practically?

Mr. Phillipes. Practically.

Well, no——

Mr. Jenkins. Are you including in jeans the other?

Mr. Phillipes. Worldwide jeans. I misunderstood. Now, all around the world about two-thirds of the products we make are jeans and about one-third are other products. So about 65 million units both here and overseas would be other than jeans.

Mr. Jenkins. How many units other than jeans do you make here of that 65 million?

I believe 30 million, I guess, because you say you make 35 million garments.

Mr. Phillipes. Somewhere on the order of 35, 40 million non-jeans products would be made here.

Mr. Jenkins. And those are primarily in the slacks and——

Mr. Phillipes. The larger production items would be both men's and women's slacks, such as the Action slack and the Bendover slack, a lot of children's garments of all types, jackets, various types of jackets, sport jackets, men's coordinated suits and women's coordinates in our Koret division.

Mr. Jenkins. Are your suits all made here? I was thinking that was a cut-and-sew operation.

Mr. Phillipes. No, the suits are made here. We have the fine suit business, which is the Oxxford suit business, up in the Chicago area, and then we have the other more moderately priced suits, the Action suits, which are made in the Southwest principally.

But that, again, is the domestic operation.

Mr. Jenkins. One of the leading factors of the labor intensive parts of your business, which is other than jeans and hats, is you went offshore, was it not? Because labor prices are cheaper.

Mr. Phillipes. It is not just labor prices. Labor is one factor.

Mr. Jenkins. Is it the leading factor?

Mr. Phillipes. I would say it is one of several important factors. It is important to us as is some of the other savings that we can achieve overseas such as certain tax savings and other economies in our business and the availability of fabric that I mentioned.

Mr. Jenkins. What type savings do you get? Are you speaking now of foreign tax credit?

Mr. Phillipes. That is a portion of it, yes.

Mr. Jenkins. The existence of the foreign tax credit encourages you to locate offshore?

Mr. Phillipes. Well, again, it is one factor. It is a rather long equation that you go through to determine where it is more economical.

Mr. Jenkins. You are about to change my mind on the foreign tax credit. That is the reason I want to know, because I have supported it in the past, but I do not think I will in the future.

That is one of the leading reasons for you locating offshore, is the existence of the U.S. foreign tax credit.

Mr. **Phillipes**. It is a consideration in our sourcing it from offshore as against to sourcing it in the United States, and our position has been the domestic industry would be much healthier if we do away with all those special credits and simply got the rate down to where the domestic industry would have a fair chance to compete against the tax rates overseas. We will give away all those special incentives if we can get a rate that we can live with.

Mr. **Jenkins**. I know you are supporting it because I remember the testimony that you are supporting the tax bill. This is the first time I had heard a U.S. manufacturer say that one of the main reasons they located offshore was the existence of the U.S. foreign tax credit, well, I mean, one of the leading factors.

Mr. **Phillipes**. Sourcing and locating for us are two different things. Most of the sourcing, for example, in our shirt business that we are doing is through contractors. Most of the locating that we are doing overseas is to supply production overseas. There are two different kinds of businesses.

Mr. **Jenkins**. Well, from my viewpoint, some good has come of this. I think you have just changed my viewpoint on foreign tax credit.

Thank you very much.

Mr. **Phillipes**. Thank you. [Laughter.]

Chairman **Gibbons**. Well, you cannot say that these things do not help something.

Any other questions for the Levi people?

We thank you very much for coming in and helping us through this problem.

We now have with us Mr. Richard Armey here, a member of Congress from Texas. Mr. Armey, come right ahead please. Go right ahead, sir.

STATEMENT OF HON. RICHARD K. ARMEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. **Armey**. Mr. Chairman, thank you for inviting me here to testify on H.R. 1562, the Textile and Apparel Trade Enforcement Act of 1985.

Quite frankly, I should say in all candor, as a professional economist, I am sorry to be here testifying with respect to this legislation.

As I mentioned, I am a professional economist, and one who puts great store in the year 1776. As an economist, the year is very important to me on two accounts. First, it was the year in which Thomas Jefferson wrote the Declaration of Independence pronouncing our independence from a nation that treated us with mean and oppressive trade practices. And, of course, our response to that was to retaliate in the strongest possible way.

Also in that year, Adam Smith invented the discipline of economics in a book entitled, "An Inquiry into the Nature and the Causes of the Wealth of Nations." The book was written expressly to point out the folly of mercantilism and to point out that free trade is, indeed, the only course of action for sane nations to pursue.

One of the things that has always amazed me as an economist is the way in which free trade arguments so often fail to prevail. Having studied that over many years, I have come to the conclusion that it is really a question of the fragmentation of representation of the public interest against the concentrated representation of the special interests.

But at any rate, I would like to remind you that every reputable economist in the history of the discipline has been a free trader, even Professor Galbraith, who has hardly been considered to be a conservative economist, was very much in favor of the General Agreement on Tariffs and Trade.

I would like to begin my discussion with a couple of my favorite quotes from Adam Smith. I have always argued that the chapter Adam Smith entitled "On Restraint of Imports" is the definitive chapter in the book, and, if you read that chapter alone, you would have read all that is essential to refute the protectionist argument.

If I may quote Adam Smith,

> A statesman who should attempt to direct private people in the manner they ought to employ their capitals would assume an authority which would safely be trusted not only to no single person, but to no council or senate whatever, and which would nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it.

Smith immediately goes on to state that:

> To give the monopoly of the home market to the produce of domestic industry in any particular art or manufacture is in some manner to direct private people in what manner they ought to employ their capitals and must in almost all cases be either a useless or hurtful regulation. It is the maxim of every prudent master of a family never to attempt to make at home what it will cost him more to make than to buy. What is prudence in the conduct of every private family can scarce be folly in that of a great nation.

It is in this chapter that Smith unlocks the secret of free trade and forever discredits the logic of protectionism. I quote him again:

> If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our industry, employed in a way in which we have some advantage. The general industry of the country being always in proportion to the capital which employs it will not thereby be diminished, but only left to find out the way in which it can be employed with the greatest advantage.

And that's a very important part of the lesson. We so often find testimony that concentrates on the harm that may come to the industry seeking the protection. What we fail to understand is the markets ability to direct resources into those areas where there is, indeed, the greatest advantage to ensure a durable and prosperous future for both the firm and the employees.

Nevertheless, these protectionist arguments continue to persist. This particular argument is a rather interesting one because it also demonstrates the point that a piece of legislation which was initiated as a temporary measure to help accommodate to a market transition, can come back in later years and be presented by way of extension, both with respect to time and coverage, to continue a restrictive trade practice.

H.R. 1562 clearly illustrated this movement toward protectionism. This legislation has several fundamental problems. One, it will most certainly invite retaliation, and that retaliation will be with respect to American export industries and there will be a loss of jobs.

One of the things we must always remember is every nation pays for its imports with the revenue derived from its exports, and without an export market we cannot provide the other nations with that sustenance for import of our products.

This particular industry is already overprotected and it very well may be the most highly protected industry in America. An import tax, especially on a commodity of this type, is a regressive tax. Consider the lower and fixed income families, trying, if you can imagine, to dress their children for their fall school and being faced with an enormously regressive tax. It is a tax on all Americans. I found it quite appropriate that this issue should be addressed by the Ways and Means Committee because, indeed, a tax is exactly what we are talking about.

As I said before, this type of legislative protection was originally meant to be a temporary aid to help domestic industry adjust to a change. The upshot of that kind of help is a distortion of the market signals and leads people in the industry to make bad decisions based on what they believe to be the conditions of the market. Government policies such as these distort the logical, productive adjustments in the economy that come as part and parcel of the process of a dynamic economy in which some industries decline and others advance, and where resources are always being directed to their most productive use. This is what I referred to for many years as government by disguise; the government disguising the signal mechanism of the marketplace.

And then, of course, the final thing is the impact on all American consumers. So this is clearly, then, a piece of legislation that is beneficial only in the short run to a particular industry, but immediately adversely impacts all American consumers and taxpayers, and will eventually—as we can see in the case of the steel industry—cause the demise of this industry itself. It is an unhealthy practice, it is bad economics, and indeed, it is extremely inequitable and unfair to the American citizenry.

I cannot express strongly enough my opposition to this kind of legislation, whether it be with respect to this particular incidence in industry or as a general posture for our Government to take. It reflects, I think, a lack of faith and confidence in what we understood where I grew up to be the practical American genius.

Americans are resourceful people with the greatest resources in the world, and I go back to Adam Smith, the "Inquiry Into the Nature and the Causes of the Wealth of Nations," was exactly that point. It is not money or the gold that you need to have to flow to your shores as the mercantilists thought, but it is the resources of the Nation and the resourcefulness of its people that make a nation wealthy. This is a wealthy nation, a great nation, and one in which I am perfectly willing to put my faith in the people and their ability to respond to the rigors of the marketplace.

I think we ought to take the people in this industry and express that kind of faith and confidence in them. Thank you.

[The prepared statement follows:]

STATEMENT OF HON. RICHARD K. ARMEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. Chairman, Members of the Subcommittee, thank you for inviting me here to testify on HR 1562, the "Textile and Apparel Trade Enforcement Act of 1985." I appreciate the opportunity to comment on this dangerous piece of legislaion.

Passage of HR 1562 would represent the acceptance of "protectionism" as the official trade policy of the United States. Since 1776, economists of nearly every stripe and color have been aware of the flawed nature of the trade policy labelled "protectionism". For one reason or another, "protectionism" has survived and actually flourished in the years since Adam Smith published "An Inquiry into the Nature and Causes of The Wealth of Nations"; a work written primarily to combat the flawed "protectionist" argument. My testimony today will center around the danger of protectionism generally, and specifically of its harmful effects in the textile and apparel industries.

By way of introduction, I would like to quote a section from "The Wealth of Nations" which I have framed and sits on my desk. It says,

"The statesman, who should attempt to direct private people in what manner they ought to employ their capitals would . . . assume an authority which could safely be trusted, not only to no single person, but to no council or senate whatever, and which would nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it." Smith immediately goes on to state that, "To give the monopoly of the home-market to the produce of domestic industry, in any particular art or manufacture, is in some manner to direct private people in what manner they ought to employ their capitals, and must, in almost all cases, be either a useless or hurtful regulation . . . It is the maxim of every prudent master of a family, never to attempt to make at home what it will cost him more to make than to buy. . . . What is prudence in the conduct of every private family, can scarce be folly in that of a great nation."

At this point, Smith unlocks the secret of free trade and forever discredits the logic of "protectionism": and I quote, "If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage. The general industry of the country, being always in proportion to the capital which employs it, will not thereby be diminished . . . but only left to find out the way in which it can be employed with the greatest advantage."

Despite this convincing argument, protectionist laws and proposals such as H.R. 1562 continue to exist. The supporters of HR 1562 state that they are saving jobs from foreign competition. In fact, as Adam Smith has demonstrated so forcefully, protectionism may protect some specific, existing jobs in the short-run, but hurts everyone, including consumers, exporters, importers, retailers, and eventually the textile industry itself. HR 1562 clearly illustrates these inevitable pitfalls of the protectionist philosophy.

HR 1562 would eventually hurt the American textile and apparel industries by insulating them from competitive imports and clouding vital market signals. For example, in the 1970's, trade restrictions had so obscured U.S. market signals that many American car manufacturers decided to produce cars in sizes and styles which were out of tune with American demand. If we want a truly long-term competitive textile and apparel industry, we must provide a clear channel for the textile and apparel industries to receive market signals, and that requires less, not more, government intervention.

Furthermore, this legislation is not in the long term best interests of the workers in the textile and apparel industries who are supposedly being "protected." Apparel and textile wages are typically well below the average for American manufacturing workers. Import tariffs and quotas encourage these workers to remain in uncompetitive, low-wage industries rather than moving to higher paying, higher growth sectors of the economy. As Senator Mathias pointed out in a hearing before the Subcommittee on International Economic Policy last fall, a 1981 study for the U.S. Labor Department found that textile and apparel workers who were permanently laid off received higher incomes in the five years following their layoff than they would have by remaining in their old jobs, even after accounting for a period of unemployment. This is a perfect example of the government artificially diverting labor away from productive and competitive sectors and into uncompetitive areas.

HR 1562 would greatly increase the chances of retaliation in other areas of trade, which could easily lead to trade warfare. Past experience has shown that measures such as HR 1562 are an open invitation to retaliation. After the imposition of unilateral textile quotas in 1982, China refused to purchase any U.S. soybean or grain.

In January of 1983 the United States unilaterally imposed quantitative restrictions on Chinese textile exports. In retaliation, China suspended previously agreed upon purchases of American wheat and other agricultural products. Although a crisis was averted by the conclusion of a new bilateral trade agreement, the dispute illustrates the fragile nature of the trade relationship between the two nations. The fact that the proposed extension of the MFA includes new, more restrictive import quotas suggests that there is a strong possibility of some type of disruption which will affect American exports.

Many nations such as China have tenuous trading relationships with the United States, and link trade in certain products, such as textiles, with trade in all products and services of its trading partners. Trade is an important consideration in conducting their foreign policy. For example, I have already mentioned that China may cut off all agricultural trade with the U.S. in retaliation for implementation of HR 1562. But they also may take actions against other U.S. exports and economic joint ventures with American companies. Such actions could prevent American high-tech and manufacturing interests from entering the huge Chinese markets.

Acceptance of the proposed extension of MFA in HR 1562 would jeopardize all American exports to China and many countries which would be severely affected by the proposed increased protection of our textile and apparel industries. For example, China's imports from the United States grew by over 37 percent in 1984 to $3 billion. China's textile and apparel industry accounts for nearly 40 percent of its total annual exports to the United States. Therefore, it is clear that China's economy and foreign exchange earnings would be significantly affected by the 57 percent cutback under HR 1562, and would significantly affect China's importations from the United States in a wide array of products. It is important to emphasize that every nation pays for its imports with revenue derived from its exports, and without an export market, we cannot provide other nations with that sustenance for importation of our products.

HR 1562 would reduce textile and apparel imports drastically. For example, it will reduce Chinese imports by over 56 percent, Brazilian imports by 58 percent, and Indonesian imports by over 72 percent (see table A). Besides restricting entry of imported goods from these countries, it will also increase the price for such goods. In mid-January 1983 when the U.S. set quotas on many textile categories from China, many retailers predicted that the price of imported clothing would go up 20 percent over a period of one year. This estimate was exceeded in less than six months, and it is now reported that the price of imported apparel went up 25 percent to 35 percent in 1984. Such trade practices simply invite retaliation and a hostile international trade atmosphere.

Besides firing the first shot in a trade war, HR 1562 would harm the very developing countries the MFA was intended to assist. A 1982 article from *The Economist* pointed out that, "The MFA's history shows how supposedly liberal intentions become restrictive in practice. Its drafters emphasized that 'a principle aim . . . shall be to further economic and social development of developing countries.' It has not turned out that way." It goes on to state that even though it was ". . . introduced as an instrument to help poor countries develop, it has put them in handcuffs—and provided work for thousands of bureaucrats."

The proponents of this legislation insist that it will not affect developing countries. However, this legislation would encourage the development of a textile and apparel industry in developing countries to a certain degree, but then cut if off. It does this by defining a "major exporting country" as one which exported to the U.S. 1.25 percent or more of the total U.S. imports of textiles and apparel for 1984. The remaining countries, defined as "exporting countries" are technically allowed a 15 percent growth in non-import sensitive items.

However, 40 percent of U.S. imports of textiles and apparel fall into this import sensitive category. To make matters worse, a disproportionately high share of exporters of "import sensitive" items happen to be developing nations.

Of the remaining 60 percent of the market in which the developing countries are allowed to compete, we allow them a generous growth rate until they reach 1.25 percent of the total U.S. imports of textile and apparel for a given year. At that point we re-define their status to a "major exporting country", and allow them a 1 percent annual growth rate. In effect this bill says that we support economic development, but only to a point.

It is true that in the near future this provision will directly affect only a few developing nations, but as an overall trade philosophy it is a perfect example of a hypocritical international development policy. It placates our conscience and allows us to argue that we are doing all we can for international development when in fact we are creating an industry which we will destroy if it happens to become successful.

Over and above presenting a hypocritical development policy, this legislation would also substantially reduce the future growth potential of developing countries. For countries that have a small export base, which is a large percentage of developing countries, restrictions on future growth eliminate the incentive to develop an economically viable industry. For example, had the proposed legislation been enacted in 1983, imports from Bangladesh in 1984 would have been only 3 percent greater than their 1983 volume—and 78 percent smaller than their actual 1984 level.

All of this boils down to one conclusion: HR 1562 presents a blatant case of trade discrimination. It singles out certain nations for preferential treatment, and certain nations for preferential punishment. By specifically exempting the European Community and Canada from any of the adverse effects of this bill, we create a perception of discrimination. In effect we are saying that our first world trading partners are preferred customers. This is not only blatant international discrimination, but violates one of the most fundamental principles of GATT, and especially the original intent of the MFA. It clearly runs counter to the intentions of Paragraph 6 of the MFA which requires that developing countries receive more favorable terms than developed countries.

If the intent of this legislation is to protect domestic industry from foreign competition, the exemption of Canada and the E.C. in HR 1562 is clearly nonsensical. Imports from developing countries between October 1984 and March 1985 fell 4 percent from the same period a year ago, while imports from Canada, the European Community, and the European Free Trade Area increased by 35 percent.

Finally, and most importantly, this legislation is a disaster for the American consumer. Special interest groups, such as the textile and apparel workers, are easily organized and highly effective lobbying mechanisms. Historically, the textile and apparel lobbies have been extremely powerful and skillful in the promotion of what they see as their best interest. However, consumers as a whole form such a large and diverse group that they are nearly impossible to organize into an effective lobbying group. In fact, it has proven extremely difficult to even inform consumers of the dangers of bills such as HR 1562. As a result, consumers as a group have been silent in the face of legislation which will affect them modestly in the immediate future, but profoundly in the long run.

Not only would this bill be the opening shot in a trade war which would be disastrous for consumers in the long run, but it has been estimated that HR 1562 would immediately raise the prices of textile and apparel products by 20 to 30 percent. According to a study done in 1983, the MFA has already cost consumers an estimated $18 to $23 billion a year since 1974. It has also been estimated that HR 1562 will cost the apparel consumers an additional $2.4 billion per year, and textile consumers an additional $1 billion annually. These figures would combine to create a total annual cost to American consumers of between $21.4 and $26.4 billion which can be traced directly to the MFA as amended by HR 1562.

HR 1562 would increase apparel import prices on average by 16 percent at wholesale. Textile import prices would increase an average of 33 percent. These gains reflect both quota induced price increases as well as product upgrading as foreign producers concentrate on the export of higher unit-value goods, as did the Japanese under the recent voluntary export restraint agreement (VER).

Not only will this bill increase the costs of textile products, but it will also limit their availability. With its broad coverage, this legislation would restrict trade in fibers historically outside of the existing regulatory structure and never produced in large quantities in the United States. For example, if silk were to be covered by quotas, there would be a substantial reduction in supply to the consumer because there are very few producers of silk apparel products in the United States.

This legislation would also raise costs and reduce availability due to endless red tape and bureaucratic strangulation. HR 1562 requires a separate license for each of the approximately 250,000 textile and apparel entries made every month in the United States. Issuance of these licenses will adversely affect newcomers to the textile and apparel industry which would perpetuate established businesses and discourage newer and often more innovative businesses. The end result is, once again, higher prices and reduced availability for the American consumer.

HR 1562 is not only discriminatory in terms of international trading partners, but it also discriminates domestically in terms of which consumers will be most affected by the increased protection. All consumers are likely to suffer somewhat from this legislation, but it is the lower income consumers who will be the hardest hit. This legislation will be particularly harsh on lower income consumers because it will severely restrict the amount of less expensive imports.

An import restriction of interest in this area is the voluntary export restraint (VER) agreement on Japanese cars. A recent study estimates that VER's raised the average price of imported cars by $851 (and domestic cars by $324) over the years 1981-2. Quite naturally, when presented with a strict new import quota, the Japanese chose to export more expensive cars to the United States. The resulting shortage of cheap automobiles was a direct and painful penalty imposed upon lower income consumers of automobiles. HR 1562 would impose the same type of penalty on lower income textile and apparel consumers who buy a great deal of clothing from countries such as Taiwan, China, and Thailand. Under HR 1562, these three countries would each have their allowable imports reduced by approximately 50 percent from 1984 levels.

Import quotas as imposed by HR 1562 are basically a tax. And because of its severe effects on lower income Americans, it is clearly a regressive tax. HR 1562 will assure that the ones who can least afford it bear the heaviest burden when it comes to textile and apparel products.

It is clear that the vast majority (75%) of jobs supported in the textile and apparel manufacturing sector would occur in the South, particularly in Georgia, and North and South Carolina. Again, this provides a cohesive and will-organized lobbying group, while the retail job losses will be distributed throughout the country. In fact, at least 36 states will suffer net job losses as a result of this legislation. The Midwest, West, Southwest, and Mountain regions will suffer the most. New York, Pennsylvania, New Jersey and Massachusetts will experience a possible net job savings, but it will be marginal and temporary. Actual retail jobs lost due to this legislation have been estimated to be at least 61,000 (see Table B).

Throughout this session of Congress, Members have seen the urgent need to cut federal spending. However, as a result of this legislation, the U.S. government will incur substantial new costs in several areas. Obviously, because this new quota will further limit imports, the government will suffer a loss of tariff revenue. If the apparel imports are reduced by the estimated 20 percent, and this is a conservative estimate, the government will lose $629 million. Add to this a loss of $166 million for foregone textile revenues, and the total loss to the U.S. government would be $795 million. This increase doesn't even take into account the creation of an entire new bureaucracy which will be needed to set up and run the proposed licensing program. While the precise cost of such an operation cannot be calculated exactly, Walter Lenahan, the Deputy Assistant Secretary for Textiles and Apparel of the Department of Commerce, has estimated that the import entries of textile and apparel amount to 250,000 per month, or 3 million per year. This is equal to half of all the entries into the United States each year and would require a substantial bureaucracy to administer such a program.

In conclusion, the Textile and Apparel Trade Enforcement Act would further protect the most protected industry in the United States. It would finalize and put on record a United States trade policy based upon unilateral, arbitrary, and discriminatory import quotas. For the reasons outlined above, implementation of HR 1562 would hurt the textile industry, the apparel industry, the workers of both industries, developing nations, American retailers and manufacturers, American farmers, American taxpayers, American consumers, and would contribute to economic inefficiency in the American economy on the whole. I would hope that the Subcommittee on Trade would see fit to reject this flawed and dangerous piece of legislation.

Thank you.

TABLE A.—REDUCTION IN MAXIMUM ALLOWABLE 1985 TRADE FROM "MAJOR EXPORTING COUNTRIES" UNDER TEXTILE AND APPAREL TRADE ENFORCEMENT ACT OF 1985 COMPARED TO ACTUAL 1984 TRADE

Country	Percent reductions all categories	Percent reductions for categories actually shipped in 1984
Brazil	58.15	65.28
China	56.66	57.28
Hong Kong	12.41	12.70
India	4.36	11.04

TABLE A.—REDUCTION IN MAXIMUM ALLOWABLE 1985 TRADE FROM "MAJOR EXPORTING COUNTRIES" UNDER TEXTILE AND APPAREL TRADE ENFORCEMENT ACT OF 1985 COMPARED TO ACTUAL 1984 TRADE—Continued

Country	Percent reductions all categories	Percent reductions for categories actually shipped in 1984
Indonesia	72.26	84.92
Japan	16.63	16.76
Korea	33.36	33.58
Pakistan	23.99	35.77
Philippines	[1] −3.30	6.49
Singapore	[1] −14.54	0.96
Taiwan	45.30	45.44
Thailand	45.76	54.53

[1] Allowable trade increase

TABLE B.—*Estimated distribution of retail jobs lost as a result of the legislation, by region and State*

[Number of Jobs]

South	14,126
Alabama	816
Delaware	195
District of Colombia	200
Florida	3,321
Georgia	1,576
Kentucky	818
Maryland	1,316
Mississippi	509
North Carolina	1,576
South Carolina	786
Tennessee	1,138
Virginia	1,495
West Virginia	380
Northeast	12,126
Connecticut	N.A.
Maine	308
Massachusetts	1,909
New Hampshire	325
New Jersey	2,078
New York	4,153
Pennsylvania	2,949
Rhode Island	261
Vermont	143
Southwest	6,861
Arkansas	499
Louisiana	1,078
Oklahoma	827
Texas	4,457
Midwest	15,555
Illinois	3,039
Indiana	1,449
Iowa	743
Kansas	647
Michigan	2,160

Minnesota	1,292
Missouri	1,315
Nebraska	429
North Dakota	177
Ohio	2,790
South Dakota	181
Wisconsin	1,333
Mountains	3,454
Arizona	859
Colorado	983
Idaho	228
Montana	222
Nevada	268
New Mexico	360
Utah	400
Wyoming	134
West	9,356
Alaska	136
California	7,033
Hawaii	345
Oregon	709
Washington	1,133

Source: International Business Economic and Research Corporation, derived from unpublished BLS data.

Chairman GIBBONS. Mr. Armey, arguments are often made before this committee and on the floor of the House of Representatives and in the Senate also that this country distorts trade practices and that country distorts trade practices, and their government intervenes here and it intervenes there, and they are saying that they get an unfair advantage over us and why do we not respond by doing the same thing or doing something very similar to that.

One of the things that I have learned from my travels overseas is that when governments intervene in the marketplace, as some of them do and some of them do it very vigorously, and distort the marketplace that invariably the economy as a whole of that country suffers. And when you come back home, you just thank God you are an American, because while our Government intervenes a lot, it does not intervene as much and as deeply as other governments. I have to think that a part of the wealth of America really comes from the fact that our Government has not been as interventionary as other governments. You know, I could not answer for a long time those questions; well, why do we not intervene because somebody else intervenes. I think the reason we do not intervene is because it is just bad for the economy.

Mr. ARMEY. I could not agree with you more, and, indeed, if in another country they wanted to tax their citizens to subsidize a special interest, I should think that sooner or later those citizens would be fed up with it.

Chairman GIBBONS. Our fear and praise of the Japanese is so overblown. When I go and look and see how the Japanese live, I say, you know, we would be foolish to follow their model. I go to Brazil and other places and look at their model, and it just does not work. Ours works.

Mr. **Armey**. Even Oscar Langy, the greatest of all the Socialist theorists, stated as his bottom line that the only way socialism could ever work is if it emulated capitalism. And America does still represent the greatest experiment in capitalistic free enterprise, and the essential lesson to government was given, of course, by Adam Smith when he expressed the laissez-faire philosophy. It works. This is a case where we are being asked to leave that philosophical foundation which has made this country great, and I think it would be a very shortsighted thing that would—and I want to emphasize this—ultimately hurt even those that it was designed to protect.

Mr. **Jenkins**. I appreciate your views, Mr. Armey, while I obviously disagree with them. I, nevertheless, appreciate your candor, but I was a little bit disturbed by one of your statements. Apparently, you say that even if a country subsidizes, you would not take any action because ultimately that subsidy will end up hurting its own people, if I understood your answer.

Mr. **Armey**. Exactly. There is a hint to that in the quote from Smith that I read, but it is essentially this: The wealth of the Nation, its productive capability is going to be there. The question is to what extent can we direct it to that best possible use.

Now, if, indeed, the industry cannot survive in an open market free of subsidy, that is the market saying there is a better use of those resources, and the market trying to signal to move them to where they can be more productive. If we, indeed, then put a subsidy in there, in effect what we are doing is circumventing what Schumpeter called that creative wave of destruction that is the first wave of moving resources out of an industry where it is not competitive, so that they can then be redirected to an industry where it will be competitive.

Mr. **Jenkins**. I want to make sure that I understood what you said a few moments ago.

The mere fact that some nation may subsidize an industry does not disturb you at all because ultimately they will have to pay the bill and we should not take any action. Is that it?

Mr. **Armey**. Absolutely right. In fact, we see our neighbors doing something that is contrary to the well-being of their people, we should not emulate that and hurt our people in the process.

Mr. **Jenkins**. So if the People's Republic of China decides as a government itself to produce cotton and wheat with great subsidies, undercutting all of the cost of cotton, under Texas, and Georgia, and wherever, including grain, which they are on the threshold of doing, you would say well and good, continue. Is that right?

Mr. **Armey**. I live with an abiding faith that any Socialist system will never do well enough to be a threat to a free enterprise capitalist system. But even if they were able to, in a free and open market, export sufficient sums of foods, it would make it possible for us to leave that field and take our advanced technological understanding and the advanced technological labor force that we have to even greater heights. In other words, in effect, it would free us from the burden of feeding and clothing ourselves, so we can take our superior technology and ability on to greater heights challenging mankind.

Mr. **Jenkins**. So you would say continue, just sell it to us cheaper; is that right?

Mr. **Armey**. Well, certainly. And, of course, you see why. I have noticed in some of the preceding comments there was some reference to market disruptions. If you are going to have a dynamic market economy that is moving forward into the future, there will be what we call disruptions, and there will be a reapportionment of resources away from those areas in which we have a failing advantage, and toward those where we have the new emergent advantage. That is one of the exciting things about living in a nation like the United States where that process is free to provide the greatest opportunity for our people.

Mr. **Jenkins**. I am amazed. You are the first Member I ever heard that truly believes that you should not do anything if there are great subsidies by other countries.

Mr. **Armey**. Well, I am one of the few Members you have heard that has a Ph.D. in economics and spent the last 20 years of my life studying this subject. So I think I would say in comparison between myself and Milton Friedman, I am always a little bit amazed at his complete devotion to free trade and his lack of reservation or fear of free trade. And I can only conclude it is because Milton understands it better than I do.

By the same token, when I find people who have a greater fear, then my rather nominal fear that pops up occasionally, I can only say that I understand it better than they do.

Mr. **Jenkins**. You represent an agricultural area?

Mr. **Armey**. Only a part of my district is agricultural, a very small, nominal part.

Mr. **Jenkins**. That is all the questions I have.

Mr. **Heftel**. Mr. Chairman, I think I would be remiss if I did not comment.

I represent in my district, unrelated to the State as a whole, a somewhat urban area, but we have a great deal of cane sugar production. And I have been talking with my colleagues about the fact that, as drafted, the textile legislation has some problem areas but that hopefully we will work together in trying to resolve them, so that we do not inadvertently do damage to a segment of the American economy and employment in the process of trying to better preserve our textile industry.

But I think I have an obligation to point out that if we were to do nothing about competitive sugar in the world market, the world market is at about 4 cents. There is no way you produce under about 17 or 18 cents. So if we followed your lead, we would no longer produce sugar domestically. But if you know anything about cane sugar, it is a multimillion dollar investment. So once you dismantle it, no one in his right mind in a competitive economic society, having learned the lesson of dismantling and losing, will now reinvest to produce cane sugar.

And so now this country would be dependent upon foreign sources for cane sugar. Once the foreign markets were aware of the fact that we no longer produced our own sugar source, they would do what they did in coffee, for instance, and the price would escalate dramatically.

And if you think that you could say to any country, we are fair game, you can underwrite and undersell and displace any part of our economy and we will let you do it, and then after that we will figure out something else to do, so that they then could have the reassurance that once we dismantled the ability to produce in a given area, that they could then exploit our dependence upon those foreign markets. And I think what you are asking for is a great deal of trouble, and I have a feeling that because you have spent 20 years, perhaps, in the academic side of the world, that you may not know what happens in the competitive side. And it would be disastrous if we were to go forward with the projection of what would happen under your proposal. And I think that you want to rethink it and figure out what happens when foreign countries know what they can do to us because we keep moving on to something else, and in the meantime, we become dependent to the foreign market production at whatever price they want to charge because we can no longer produce it.

Mr. **Armey**. Well, I appreciate your point and you are right, I was in the academic community, and one of the things that I am very proud of is the fact that I spent 20 years in the academic community without losing touch with reality. I think that is sometimes a difficult thing to do.

Let me address your first point. In effect, what you are saying is that if we do follow our area of comparative advantage and, indeed, we find that we produce no domestic sugar, there may be a foreign producer or producers, and they may even form into a cartel. In such a case, they could coerce us into paying a price that is higher than we want.

The wonderful thing about the market is it has got this wonderful little gadget called price elasticity of demand that demolishes monopoly power. And the fact of the matter is, and one of the very often overlooked facts of the exchange is that exchange requires both a buyer and a seller, and sellers need buyers as badly as buyers need sellers. The fact is also that sugar has in this particular case a great many substitutes to it, plus the fact is that those sellers of sugar are going to need foreign exchange in such a way to be able to import all the things they do not produce for themselves. And so, consequently, if they did have market power to set the price, they would set it at that point of unitary elasticity where they could maximize their foreign exchange receipts and, indeed, we would respond, of course, by the maximum purchases.

So it really does not bother me, but your point was well taken; all too often in the academic community we fail to convey to our students in the world at large the true significance of price elasticity of demand as the one thing that protects us from monopoly power.

On the other hand, we are bedeviled by monopoly power, and in this industry I suspect the case is the truest monopoly power in America today is found in labor unions that can truly, by virtue of their vesting of excessive monopoly rights by the Government, offer to the buyer an all-or-nothing proposition. And as you may very well guess, they have made such offers to the garment industry, in which case the cost has been inflated and has made difficulty.

So rather than to resolve the dilemma by adding another monopoly power, which we have in the person of this bill, we could better relax the monopoly power that is already domestically bedeviling our producers, and the whole world would benefit, especially the American consumer.

Mr. HEFTEL. I think that there is a moderate position which recognizes the real world and what countries will do to exploit whenever we give them the opportunity. These are the same people who will take hostages, shoot down planes, put us in gas lines; there's a legend of things that can happen to us if we are too naive or we live in a vacuum or we think in a vacuum. And I do not want to belabor the point, but I do want to suggest we would all have to moderate tremendously from the ideal positions we might otherwise state if we are going to survive in a very real world.

Mr. ARMEY. Well, there is no question about that, and even the OPEC nations struggled very long and hard with that classic point. But at that classic point, one of the exporting nations, Saudia Arabia, did, indeed, depart from OPEC searching for that unitary elasticity point which is extremely important to them, and, of course, as you can see, our adjustment to their strong-arm price policies has caused some market changes and sort of put them on the run.

So, indeed, the market does prevail. The other side of your point is I scarcely believe it is a matter of national defense, and I live in no great fear of anybody denying us sugar.

Chairman GIBBONS. All right. Thank you very much.

Next we have a panel of witnesses: the Keystone Apparel Association, Silk and Rayon Printers and Dyers, Hudson County Chamber of Commerce and Industry, Small Business Council, and the Royal Silk, Ltd.

STATEMENT OF ARNOLD DELIN, EXECUTIVE DIRECTOR, ATLANTIC APPAREL CONTRACTORS ASSOCIATION, PRESIDENT, KEYSTONE APPAREL ASSOCIATION

Mr. DELIN. Mr. Chairman and members of the subcommittee, thank you for giving me the opportunity to appear today in support of H.R. 1562, the Textile and Apparel Trade Enforcement Act. In the interest of time, I will keep my remarks brief and submit the full text of my testimony for the record.

Chairman GIBBONS. Without objection, your statement will be included in the record.

Mr. DELIN. Thank you. I am the executive director of the Atlantic Apparel Contractors Association, based in Wind Gap, PA, a trade association of over 250 members located throughout the Commonwealth of Pennsylvania, employing about 18,000 workers.

I am also president of the Keystone Apparel Association, which composes five apparel trade groups, including manufacturers and contractors representing some 500 Pennsylvania garment factories, which employ approximately 55,000 workers. So you can see we represent quite a few employees and employers.

I will confine my testimony today to the impact which the burgeoning apparel imports have had on the apparel industry and its workers in Pennsylvania, the State I know best and the State where I have been involved in the apparel contracting business for over 30 years. At the same time I must say there is nothing to indicate that the Pennsylvania experience is unique or peculiar to that State. Unfortunately, the Pennsylvania experience reflects the State of the industry nationwide.

The employers in the apparel contracting and manufacturing industry are either immigrants or first generation Americans who came to these shores to pursue the great American dream which flourished for a time.

But beginning in 1965, imported garments have decimated our ranks, causing vast unemployment amongst the workers and a continuing wave of bankruptcy amongst the employers. So the American dream that everybody pursued, and these small businessmen came to pursue, has mainly because of imports been shattered.

In the vast majority of cases, the employers I represent are not huge, publicly owned firms. Rather, they are the small mom and pop shops employing about 75 workers each, on the average. They can be accurately characterized as typical American style small business entrepreneurs whose livelihood and that of their workers is what is at stake here.

When we talk about imports, we generally talk about statistics, but what we really should talk about are the people, the human beings, the human lives which are being sacrified and affected by the continuous flow of imports. In the statement which I have presented, I discuss a lot of statistics, but those statistics cannot convey what is happening to the people who are working or who have worked in our shops.

Since imports reached the flood stage during the past 10 years, we estimate that between 600 and 700 garment factories in Pennsylvania have failed, throwing thousands of people out of work, severely damaging the local economy, the local economy of the State that depends on these workers for their patronage, and destroying the economic future of these small businessmen.

Additionally, they have suffered the heartbreak of seeing years of hard work going for nought. At its peak, the Atlantic Apparel Contractors Association, which I represent, had over 400 shops in our association, employing 35,000 people.

Today that number has been sharply reduced to 250, a decline of almost half from our peak years. Today we employ, as I mentioned before, 18,000 workers, again just a bit more than half those we once employed.

The Keystone Apparel Association, of which I am president, has dwindled to a mere 150 factories where at one time throughout Philadelphia and other areas of Pennsylvania they had about 300 factories.

In Pennsylvania and elsewhere in the Nation the victims of imports have not only been the factory operators, their workers and local communities. The Federal, State, and local governments have also been victimized by imports through sharp losses in tax revenues.

As you know, foreign garment manufacturers and contractors pay no Federal income tax, no employer-employee FICA payments, no Pennsylvania income tax, no Federal or State unemployment compensation taxes, no local or occupation taxes. At a time when the Federal Government is in such dire need of tax revenues to reduce the enormous deficit, it seems to us that the Federal Government and the State and local governments have a very special and vested interest in preventing the extinction of the apparel industry and the tax benefit it generates.

Those who advocate free trade criticize American industry for coming crying to the Government pleading for protection from imports without first trying to help themselves. That is not so in our case. Our association, Atlantic Apparel, for years has been running productivity and management seminars on a regular basis free to our members. We have a full-time engineering staff free to our members to inform them of modern techniques and technology that are available.

We run machine shows every other year similar to that of the bobbin show to bring close to home the latest in high-tech equipment so our people can have the opportunity to help increase their production to be able to compete with foreign imports.

Many of our members have spent their last pennies that they have in their bank accounts, many have mortgaged their homes, many are continuing to go down the tubes. We have not been idle. We have been continually striving to help ourselves long before we have had this opportunity to bring our cause to this hearing today. Yet in spite of our best efforts, we have not been able to meet the import competition.

In summary, the continuing pattern of bankruptcies amongst hundreds of small businessmen in Pennsylvania makes the futures of those still in business easily predictable. This committee and Congress are their court of last resort. If legislation is not passed to curb the growth of imports along with strong enforcement to prevent the market disruption unrestrained imports cause, it is certain that the small businessmen I represent will surely vanish from the American scene.

Mr. Chairman, for all these reasons and speaking on behalf of the Atlantic Apparel and Keystone Associations, I strongly support H.R. 1562 and urge its early enactment. Thank you.

[The prepared statement follows:]

STATEMENT OF ARNOLD DELIN, EXECUTIVE DIRECTOR, ATLANTIC APPAREL CONTRACTORS ASSOCIATION, AND PRESIDENT, KEYSTONE APPAREL ASSOCIATION

Mr. Chairman, members of the Subcommittee I am pleased to be here today to discuss the Textile and Apparel Trade Enforcement Act of 1985. I am Executive Director of the Atlantic Apparel Contractors Association, based in Wind Gap, Pennsylvania, a trade association of 250 members located throughout the Commonwealth and employing about 18,000 workers. I am also President of Keystone Apparel Association, composed of five apparel trade groups including manufactures and contractors. Keystone Apparel represents some 500 Pennsylvania garment factories which employ approximately 55,000 workers.

I will confine my testimony today to the impact which burgeoning apparel imports have had on the apparel industry and its workers in the State of Pennsylvania, the state which I know best and the state in which I have been involved in the apparel contracting business for over 30 years. At the same time I must say that there is nothing to indicate that the Pennsylvania experience is unique or peculiar to that state. Unfortunately, the Pennsylvania experience reflects the state of the industry nationwide.

The employers in the apparel contracting and manufacturing industry are either immigrants or first generation Americans who came to our shores to pursue the American Dream which flourished for a time. But since 1965, imported garments has decimated our ranks causing vast unemployment among the workers and a continuing wave of bankruptcies among employers. So the American Dream, these small businessmen came here to pursue has, mainly because of the impact of import, been shattered.

I would like to briefly comment on the reasons why the Atlantic Apparel Contractors Association and the Keystone Apparel Association I represent so strongly support the passage of H.R. 1562.

The reasons are:

1. The alarming number of failures among the small businessmen who operated the many small shops throughout Pennsylvania.
2. The loss of Federal, State and local tax receipts due to these failures.
3. The multiplier ripple effect on local businesses which depend on patronage from the apparel industry.
4. The measures we have been taking to help ourselves.

In addition I will reply briefly to some of the objections to the legislation.

PENNSYLVANIA GARMENT FACTORY BUSINESS FAILURES

Since imports reached the flood stage, we estimate that between 600 and 700 garment factories in Pennsylvania have failed, throwing thousands of people out of work; severely damaging the local economy that depended on these workers for patronage and destroying the economic futures of these small businesses. Many of these small businessmen have lost their life savings. Additionally, they have suffered the heartbreak of seeing years of hard work going for nothing.

At its peak, the Atlantic Apparel Contractors Association numbered a membership of slightly more than 400 shops employing 35,000 people. Today, that number has been sharply reduced to 250—a decline of nearly one half from our peak years. Today, we employ only about 18,000 workers—again just a bit more than half the people we once employed.

Indeed, since June 1st of this year alone, we have lost 12 more member factories due to either bankruptcies or "survival mergers."

To be sure, not all of those failures can be directly attributed solely to the impact of imports, although the majority of them failed for that reason. And very, very few businessmen are starting up new shops in an industry that has been so chilled by the frigid winds of imports.

What of our future? Industry experts predict that if the present trend toward business failure due to imports is allowed to continue without remedial legislation to prevent market disruptions and excessive violations of the existing Multi-Fiber Arrangement, the apparel manufacturing and contracting industry in Pennsylvania will be wiped out in less than 10 years.

LOSS OF TAX RECEIPTS ON EVERY LEVEL OF GOVERNMENT

In Pennsylvania, and probaby elsewhere in the nation, the victims of imports are not only the factory operators, their workers and local communities that depend upon them for patronage. Indeed, the Federal, State and local governments have also been victimized by imports through sharp losses in tax revenues.

In the four years between 1980 and 1984 alone, tax receipts at every level of government declined as the Pennsylvania apparel industry was battered by imports. In 1980, 118,519 people were employed. By 1984, the figure was down to 106,210, a decline of 12,309 workers. To be sure, the remaining workers were paid more than those who were employed four years earlier, largely due to union increases.

But because these 12,309 wage earners lost their jobs, here is what happened to tax receipts on every government level on an annual basis:

Federal tax receipts down over $54 million.

Employer and employee FICA contributions each down $21,186,900.

Pennsylvania income tax receipts $7 million less. Pennsylvania unemployment tax payments, nearly $30 million less; Federal unemployment tax payments more than $5 million less.

Local communities have likewise been hard hit by losses of tax revenues. Local communities lost over $3 million in wage taxes.

The surviving apparel factories are still paying over $500 million in taxes to the various taxing bodies. Of this amount the Federal Government receives over $194 million. But if the Pennsylvania apparel industry is completely wiped out by imports, as industry leaders predict, these present tax receipts of over $500 million will be erased, too.

As we know, garment manufacturers and contractors operating in the exporting nations pay no Federal Income Tax, and no employee or employer FICA payments, no Pennsylvania Income Tax, no Federal or State Unemployment Compensation Taxes, no Local or Occupation Taxes. And at a time when the Federal Government is in such dire need of tax revenues to reduce its enormous deficit, it seems to us that Federal, State and local governments have a very special and vested interest in preventing the extinction of the apparel industry and the tax receipts it generates.

MULTIPLIER RIPPLE EFFECT

In addition to the devastating effect that imports have had on the small businessmen who make up our industry, the multiplier effect on local businesses ranges from significant to tremendous.

Local banks, grocery and clothing stores, auto dealers, insurance agencies, dry cleaning establishments—indeed all kinds of local businesses have been damaged by the loss of jobs in the Pennsylvania apparel industry. This has occurred because, when jobs are lost in apparel industry, the workers in it are largely semi-skilled and are not equipped to make the transition to other industries, particularly not to high-tech jobs.

This multiplier ripple effect has been particularly harmful in the Pennsylvania Slate Belt and the Anthracite coal regions all the way from Scranton to Pottsville to Roseto. When the basic industries—and sometimes the only ones—in these towns vanished, women went to work in garment factories to support their families. Garment factories became the main source of industrial employment in many of these communities. Today, with the apparel industry losing its factories on an ever-escalating basis, the impact of imports is not only wiping out the industry, but is threatening the economy of entire communities.

MEASURES TO HELP OURSELVES

Those who advocate so-called "free, unlimited trade" criticize American industries for coming crying to the government, pleading for protection from imports, without trying to help themselves. This is not true—at least not with the Atlantic Apparel Contractors Association.

For many years, we have been:

Running productivity and management seminars on a regular basis to update managers on modern techniques.

Operating a fully-staffed engineering department whose services are free to our member shops.

We have developed a set of four work standards manuals which were given to our members without charge to assist them in developing manufacturing standards and setting proper pricing to help them in their attempts to be competitive.

Many of our members shops have spent much of their dwindling cash reserves and even mortgaged their homes to modernize plant and equipment.

On the federal level, I serve on the MLTAC Committee which meets monthly here in Washington as an advisory group to the Department of Commerce.

So you see, we have not been idle. We have been consistently striving to help ourselves long before we had this opportunity to bring our cause to this meeting today. Yet in spite of our best efforts, we have still not been able to meet import competition.

OUR POSITION ON H.R. 1562 VERSUS ITS CRITICS

The advocates of free trade are voicing strong criticism of H.R. 1562. I would like to take just another few moments to comment on the two main criticisms. They are:

1. Passage of this bill would result in higher prices to poor people who buy low-price garments. This argument is specious. The bill would certainly not eliminate imports. It would merely reduce the rate of growth of such imports. If this bill becomes law, there will still be a very large flow of lower-priced imported garments specifically made for consumers who, for a variety of reasons, may prefer to purchase them.

2. The other main criticism is that all garments will increase in price to consumers. Again we disagree. All of us in the industry know that the retail price is usually identical whether or not the garments are produced in foreign countries or domestically. Therefore, there is absolutely no advantage to the consumer. But there is a definite, decided advantage for middlemen and retailers. They buy imports for less and mark them exactly the same as domestically produced garments and pocket the difference themselves.

Meanwhile, they rail about the horrendous dangers of protectionism, but they are really only concerned with their own higher profits.

THIS IS PROTECTIONISM IN REVERSE

What they really want is for the anachronistic free trade policy of the United States to protect their higher profits at the expense of thousands of small American businessmen who operate garment factories and the thousands of Americans they employ.

SUMMARY OF OUR POSITION ON H.R. 1562

The concern expressed by opponents of the legislation for the welfare of the consumer is not shared by the consumer. A poll recently taken by the New York Times and CBS News show that most Americans believe that foreign trade costs jobs in the U.S. and they consider restrictions on imports a good idea even if it means less choice among the products they buy.

An Associated Press story, of just a week ago, reported that Allen Sinai, Chief Economist for Shearson Lehman Bros., Inc., said that U.S. manufacturing is in a recession. . . The U.S. economy slowed to a virtual standstill during the first three months of this year. While there was a pickup in activity in the April-June quarter, many expect growth to sag again as U.S. industry, hobbled by a high dollar, continues to be battered by foreign competition.

Writer Robert Kuttner, quoted in the Chicago Tribune, has said, "It is absurd to let foreign merchantilists enterprise in the name of free trade. The alternative is not jingoistic protectionism—it is managed trade on the model of the Multi-Fiber Arrangement."

Professor George Lodge of Harvard Business School says: "The old premise of free trade is in many ways a delusion. Governments are directly concerned with the outcomes, not just the rules, of trade and they manage their national portfolio by designing policies and institutions both to achieve competitiveness and to ease the costs of industrial transition within their borders."

The United Sttes has already become a debtor nation which is certainly an early sign of economic disaster if we are to pursue the concept of free trade. We have, in just a few years, lost many of our industries while others are being threatened on a daily basis.

Due to the unfortunate decline in steel, mining and other Pennsylvania industries, the apparel/textile industry is—for the moment at least—the largest collective employer in the Commonwealth of Pennsylvania. However, if imports are permitted to steal away our markets, the apparel/textile industry will vanish within a decade. For all the reasons enumerated in this testimony, and speaking on behalf of the Atlantic Apparel Contractors Association and the Keystone Apparel Association, I strongly support H.R. 1562 and urge its early enactment. Passage of H.R. 1562 is essential if what remains today of a once thriving apparel manufacturing industry is not to disappear entirely.

Chairman GIBBONS. Thank you, sir. Our next witness is from the Silk and Rayon Printers and the Hudson County Chamber of Commerce, Small Business Council, Mr. Scheyer.

STATEMENT OF WILLIAM E. SCHEYER, TREASURER, NORTH BERGEN PIECE DYE WORKS, INC., ON BEHALF OF THE SILK AND RAYON PRINTERS AND DYERS ASSOCIATION OF AMERICA, INC., AND HUDSON COUNTY CHAMBER OF COMMERCE AND INDUSTRY, SMALL BUSINESS COUNCIL COMMITTEE

Mr. SCHEYER. Thank you, Mr. Chairman. In the interest of brevity and in light of the late hour, I would request you make my complete written testimony part of the record, and I will only read a summary.

Chairman GIBBONS. Yes, sir. All right, without objection, so ordered.

Mr. SCHEYER. Chairman, Congressman Gibbons, and other members of the House Trade Subcommittee, I am William Scheyer, representing North Bergen Piece Dye Works, Silk and Rayon Printers and Dyers Association of America, and the Hudson County Chamber of Commerce and Industry, Small Business Committee.

My company and the other members of the association as well as various members of the chamber of commerce are engaged in the processing of textiles, and I wish to thank you for the opportunity to appear here today.

We in the domestic textile industry are competing against governmentally subsidized companies in foreign lands who not only have the benefit of lower labor costs, but are also not required to comply with costly governmental regulations, such as those mandated by OSHA, EPA, et cetera, while our Government and our society requires us to conduct our business in a manner so as to provide the highest standard of living on Earth.

The fact that the American smokestack economy has fallen victim to foreign competition is no secret. Senator Bradley said America must realign its economy from that of heavy manufacturing to that of high technology and service. I am sure the learned Senator is aware of the fact that only because our forefathers began the manufacturing of essential goods in America following the Revolutionary War did our infant country grow into the great Nation it is today.

Domestically produced essential products are America's key to continued freedom from control by foreign interests. Certainly the clothes we wear on our backs must be considered as essential products. The current trend of dramatically increasing imports has shown a willingness on the part of some people to risk our independence for the quick buck or the quick fix for inflation.

Imagine the long term effect of present trends. Our domestic textile industry will continue to shrink until it is only a skeleton of the great industry it once was. And consumers will become more and more dependent upon imports. If an international crisis should develop or an embargo should be used against America, the prices of the now cheap imported textile products will skyrocket, just as did oil prices when the Arab nations imposed the oil embargo in 1973.

I ask you, is it worth the price to risk such consequences; 200 years ago our forefathers said no. Today I say no. We can no longer stand the decay of America's smokestack economy. If we do, we will become dependent upon foreign interests and lose our independence. America has already lost much of various industries, and it is now time to stop the decay of America as a producer of goods.

To illustrate the impact of textile imports on the textile economy of New Jersey I will use my own company as an example. My company is one of the oldest textile companies in New Jersey. By the mid-fifties the entire plant had been modernized. Old, insufficient methods of producing our product were discarded and replaced with new methods of production designed to lower the unit cost of production.

During that time our Government was displaying to our new friends from Japan the new technology and advances being employed by American industry in an effort to assist in the rebuilding of the post-war Japanese economy. By the time the sixties came along we began receiving fabric woven in Japan to be processed in our plant.

At first those fabrics were of poorer quality in comparison to American fabrics. However, by 1970 the Japanese fabrics were clearly superior to American made fabrics; the only advantage maintained by American textile producers was the fact that relatively few fabrics were made in Japan.

In about 1973 finished textile products began to be imported into America on a steadily increasing basis. By that year my family's plant as well as virtually all textile plants in northern New Jersey had been modernized and offered a diversity of processes never before readily available within the industry.

Our plant had increased production capability by approximately 60 percent over the production rates of the early sixties in an effort to keep the per unit cost to a minimum. However, with the ever increasing amount of imported textile products ready for the marketplace, our plants orders began to fall drastically despite our continuing modernization efforts.

By 1984 production orders had fallen to their lowest point since 1958, and the decrease has continued this year. Throughout all this time everything our Government asked of us we did. We installed pollution equipment. We cut energy consumption. We modified our machines to provide for greater workplace safety and perhaps most importantly we continued to employ members of the American work force. Yet now when we need something from our Government, it has failed us by inaction.

Today our industry is left with small, difficult orders, while the foreigners get the high volume, profitable work. Annexed to my written testimony as appendices A and B are statistics illustrating the decline in the volume of goods shipped by my family's plant since 1958 and the steady decline of employment in our industry in the New York metroplitan area since 1969.

As you can see from these figures, the increase in imported textiles and textile products has had a disastrous effect on employment within northern New Jersey.

Mr. Chairman, the people I represent do not intend to espouse protectionism as a means to curb imports; we understand that America needs free international trade. But just as all free societies are governed by laws and regulations enacted for the purpose of maintaining orderly interaction among their people, so it must be with international trade.

Presently certain foreign countries restrict their imports of American made products while simultaneously flooding America with their textile products. This cannot be allowed to continue any longer. We understand that the Department of Defense needs military bases throughout the world and the State Department must commit the United States to trade agreements with those countries where military bases are located. Furthermore, we recognize that in developing nations it is in the best interests of the United States to show the people the benefits of free enterprise and free trade. Moreover, we know that the textile and apparel industry can provide a great number of jobs to unskilled workers in developing nations in a relatively short period of time.

However, the price tag affixed to foreign imports must not mean the death of basic and essential industries at home. There are in existence laws, regulations, treaties, pacts, arrangements, et cetera, to protect our domestic textile industry. Yet these enactments are not being enforced.

This lack of enforcement must stop immediately if our domestic textile industry is going to survive. Undoubtedly there will be people testifying before you that will argue that imports create jobs in the retail portion of our economy and that the people of America either want lower priced textiles and textile products or can only afford them. If these arguments are advanced, I submit the question that you should ask those making these arguments is whether their profits are greater when they use imported textiles as opposed to domestic textiles.

Certainly if a group's profits rise with an increased use of imported textiles, its argument should be discounted as prejudiced and founded upon personal greed. Your concern must be for the American workforce and American industry rather than for the profits derived by importers and high volume retailers. Do not be fooled by manipulated statistics which do not reveal the volume of textiles and textile products channeled into this country through nontextile producing countries in order to circumvent existing restrictions on imports.

Nor should you be deceived by data which excludes from the imported volume, items which only have belts, buttons, or zippers put on them in the United States in order to be classified as finished in America. These are economy destroying games played by the greedy in order to turn the quick buck.

The job of the Government is to govern. You, as elected officials, are the ones chosen to carry out that most important function. Part of the governing function is the enforcement of established laws, regulations, treaties, pacts, and arrangements pertaining to the importation of textiles. Therefore, I urge you to recommend the enactment of H.R. 1562 into law without delay.

Let the word go out from this subcommittee that America will no longer permit the decay of her essential industries and that the continued life of the Ameircan work force and American industry is more important than the continued growth of the profits realized by importers and retailers of imported textiles and textile products.

Thank you, Mr. Chairman.

[The prepared statement follows:]

Statement of William E. Scheyer, Silk and Rayon Printers and Dyers Association of America, Inc., and the Hudson County Chamber of Commerce and Industry, Small Business Council Committee

Chairman, Congressman Gibbons, and other members of The House Trade Subcommittee. I am William E. Scheyer representing my own company, North Bergen Piece Dye Works, Inc.; Silk and Rayon Printers and Dyers Association of America, Inc.; and the Hudson County Chamber of Commerce and Industry, Small Business Council Committee. All of these entities are located in the State of New Jersey.

My company and the other members of the Silk and Rayon Printers and Dyers Association of America, which I will hereinafter refer to as the "Association", are processors of textiles. Various members of the Hudson County Chamber of Commerce, which I will hereinafter refer to as the "Chamber of Commerce" are also engaged in the processing of textiles. Our businesses are service oriented, processing raw textiles into finished products ready to be manufactured into garments and/or home furnishings. Some of the members of the Chamber of Commerce are embroiderers and garment manufacturers producing products directly for the marketplace. We are all small businesses as defined by the Small Business Administration.

I wish to thank you for the opportunity to appear here today. Hopefully, what I have to say will influence you in your deliberations on H.R. 1562, the "Textile and Apparel Trade Enforcement Act of 1985".

Modern social, economic and international developments are putting American businessmen into the most competitive environment of this century. We in the domestic textile industry are competing against governmentally subsidised companies in foreign lands who not only have the benefit of lower labor costs, but are also not requred to comply with costly governmental regulations such as those mandated by OSHA, EPA, etc. On the other hand, our Government and our society requires the domestic textile industry to conduct its business in a manner so as to provide the highest standard of living ever to exist on earth.

The fact that the American "smoke stack economy" has fallen victim to foreign competition is no secret. Senator William Bradley of N.J., in his speech at a luncheon during October of 1982, said America must realign its economy from that of heavy manufacturing to that of high technology and service. I am sure the learned Sentor is aware of the fact that only because our forefathers began the manufacturing of essential goods in America, following the revolutionary war with England, did our infant country grow into the great nation it is today. Our forefathers knew that if America remained dependent upon foreign suppliers for essential products, America would not survive for long.

Domestically produced essential products are America's key to continued freedom from control by foreign interests. Certainly, the clothes we wear on our backs must be considered as essential products.

The current trend of dramatically increasing imports of textiles and textile products has shown a willingness on the part of some people to risk our independence for the quick buck; or a quick fix for inflation. Imagine if you will, the long term effect of the present trends. Our domestic textile industry will continue to shrink until it is only a skeleton of the great industry it once was, and consumers will become more and more dependent upon imports for the clothes on their backs. If an international crisis should develop, or an embargo should be used against America, the prices of the now cheap imported textile products will sky rocket, just as did oil prices when the Arab nations imposed the oil embargo in 1973.

I ask you is it worth the price of today's quick fix for inflation, or the quick buck made by relatively few businessmen, to risk such consequences. Two hundred years ago our forefathers said *No* and today I say *No!*

We can no longer stand the decay of America's "smoke stack economy". If we do, we will become dependent upon foreign interests and we will lose our independence. America has already lost much of its consumer electronics industry, our shoe industry, our ship building industry, and steel industry to name only a few. It is now time to stop the decay of America as a producer of goods.

To illustrate the impact of textile imports on the textile economy of New Jersey, I will use the history of my own company as an example. My company is one of the oldest textile companies in New Jersey, established in 1937 by my father. During the years between 1937 and 1942, he struggled to keep the company alive, the effects of the great depression still being felt across America. During World War II, government contracts provided the shot in the arm necessary to get the economy rolling once again. When our company began to be profitable, those profits were reinvested in our business to modernize the plant.

By the mid-fifties, the entire plant had been rebuilt. Old, insufficient methods of producing our product were discarded and replaced with new continuous methods of production designed to lower the unit cost of production. During that time, our Government was displaying to our "new" friends from Japan, the new technology and advances being employed by American industry, in an effort to assist in the rebuilding of the post-war Japanese economy. As a child, I can remember my father escorting many Japanese businessmen through our plant, explaining to them how we operated.

By the time the sixties came along, we began receiving fabric woven in Japan to be processed in our plant. At first, the fabrics were of poor quality and the Japanese workmanship was a "joke" in comparison to American fabrics. However, by 1970, the Japanese fabrics were clearly superior to American made fabrics. The only advantage maintained by American textile producers was the fact that relatively few fabrics were made in Japan.

In or about 1973, finished textile products began to be imported into America on a steadily increasing basis. By that year, my family's plant as well as virtually all textile plants owned and operated by members of the Association and the Chamber of Commerce, had been modernized, and offered a diverstiy of processes never before readily available in the industry. Our plant had increased production capability by approximately 60% over the production rates of the early sixties in an effort to keep the per unit costs to a minimum. However, with the ever increasing amount of imported textile products ready for the marketplace, our plant's orders began to fall drastically, despite our continuing modernization efforts. By 1984, production orders had fallen to their lowest point since 1958, and the decrease has continued this year.

Throughout all this time, everthing our government asked of us, we did: we installed pollution equipment; we cut energy costs and consumption when energy became short; and we modified our machines to provide for greater workplace safety. Furthermore, and perhaps most importantly, we continued to employ members of the American workforce. Yet, now, when we need something from our government, it has failed us by inaction.

Today, our industry is left with small, difficult orders, while the foreigners get the high volume, profitable work. Can you imagine how difficult it is to run a modern plant when the only orders received are either leftovers or unusual orders?

Annexed to my written testimony as Appendix A are statistics illustrating the decline in the volume of goods shipped by my family's plant since 1958. In addition, I have annexed as Appendix B, statistics illustrating the steady decline of employment in our industry in the New York Metropolitan Area since 1969. As you can see from these figures the increase in imported textiles and textile products has had a disastrous effect on employment within our association. Employment statistics for the Chamber of Commerce members would likewise show this drastic decrease.

Mr. Chairman, the people I represent do not intend to espouse protectionism as a means to curb imports. We live in the real world: we understand that America needs free international trade. But, just as all free societies are governed by laws and regulations enacted for the purpose of maintaining orderly interactions among their people, so it must be with international trade.

Presently, certain foreign countries restrict their imports of American made products while simultaneously flooding America with their textile products. This simply cannot be allowed to continue any longer.

We understand that the Department of Defense needs military bases throughout the world and the State Department must commit the United States to trade agreements with those countries where military bases are located. Furthermore, we recognize that in developing nations, it is in the best interests of the United States to show the people the benefits of free enterprise and free trade. Moreover, we know that the textile and apparel industry can provide a great number of jobs to unskilled workers in developing nations in a relatively short period of time. However, the price tag affixed to foreign imports must not mean the death of basic and essential industries at home.

There are in existence laws, regulations, treaties, pacts, arrangements, etc., to protect our domestic textile industry. Yet, these enactments are not being enforced. This lack of enforcement must stop immediately if our industry is to survive.

Undoubtedly, there will be people testifying before you that will argue that imports create jobs in the retail portion of our economy; that the people of America want lower priced textiles and textile products; and that the people of the United States can only afford lower priced imports. If these arguments are advanced, I submit that the question which you should ask the entities making these arguments is whether their profits are greater when they use imported textile goods as opposed to domestic textile goods. Certainly, if a group's profit rise with an increased use of imported textiles, its argument should be discounted as prejudiced, biased, and founded upon personal greed. Your concern must be for the American workforce and American industry, rather than for the profits to be derived by importers and high volume retailers.

Don't be fooled by manipulated statistics which do not reveal the volume of textiles and textile products channeled into this country through non-textile producing countries in order to circumvent existing restrictions on imports. Nor should you be deceived by data which excludes from the imported volume items which only have belts, buttons or zippers put on them in the United States in order to be classified as finished in America. These are economy destroying games played by the greedy in order to turn a quick buck.

The job of the government is to govern. You, as elected officials, are the ones chosen to carry out that most important function. Part of the governing function is the enforcement of established laws, regulations, treaties, pacts, and arrangements pertaining to the importation of textiles. Therefore, I urge you to recommend the enactment of H.R. 1562 into law without delay. Let the word go out from this Subcommittee that America will no longer permit the decay of her essential industries, and that the continued life of the American workforce and American industry is more important than the continued growth of the profits realized by importers and retailers of imported textiles and textile products.

Thank you for your time and attention.

APPENDIX A.—NORTH BERGEN PIECE DYE WORKS, INC.

Year	Average production employees	Actual production man/hours	Actual yardage shipped
1958	52	129,000	17,500,000
1967	54	152,291	21,236,000
1973	63	140,000	23,963,000
1977	52	113,161	18,135,000
1984	63	115,025	14,101,000

Note: All figures have been taken from reports submitted to the U.S. Department of Commerce. The years presented represent all of the years for which reports were required.

APPENDIX B

Employment statistics[1] *—Number of union employees in New York metropolitan region*

Year:	Number
1969	7,144
1970	6,703
1971	6,347
1972	6,166
1973	6,129
1974	5,611
1975	5,337
1976	4,998
1977	4,188
1978	4,384
1979	3,632
1980	3,622
1981	3,586
1982	3,006
1983	2,780
1984	2,801

[1] These figures represent only those employees in plants which are members of Silk and Rayon Printers and Dyers Association, Inc.

Chairman GIBBONS. Thank you, sir. Mr. Pike.

STATEMENT OF GERALD R. PIKE, VICE PRESIDENT, ROYAL SILK, LTD.

Mr. PIKE. Mr. Chairman and members of the committee, my name is Gerald Pike, and I represent Royal Silk. We are the Nation's largest ready-to-wear silk clothier. We are a New Jersey corporation that has grown rapidly in the past half decade from a scant 6 employees to almost 150. Annual sales are approaching $30 million. We design fashions of pure silk and chief value silk blends and distribute directly to the consumer throughout the United States.

I am here to voice our concerns about H.R. 1562, commonly referred to as the multifiber bill. While we fully understand and sympathize with the problems that some of our colleagues in the textile industry are facing, we are convinced that many of the remedies proposed are shortsighted, and we believe that they would cause irreparable damage to the national interest at many levels.

In the interest of time I will leave it to others to address the overall merits of this bill, and I will concentrate on the area that I know best: that is silk.

Including silk in a measure to protect our domestic textile industry is akin to excluding the importation of gold to protect the American costume jewelry industry. It is inconceivable in principle that we should deprive the American consumer from buying the real thing to protect producers of a lesser imitation.

This is a gross distortion of any concept of marketplace and is a gross injustice to the American consumer. Silk never has been and is not now a threat to our domestic textile industry. It is not like and competitive to any domestically produced textile product.

Silk is a fabric whose domestic consumption has historically been supplied from abroad. It was first woven in China over 5,000 years ago and first introduced into the United States from abroad. This country never enjoyed a silk or sericulture industry of considerable dimension. Though Paterson, NJ, had an active silk industry in the 19th century, it was never capable of supplying the majority portion of the domestic demand.

China continues to be the world's largest producer of silk, responsible for over 70 percent of the world's supply. It is one of the few countries that can supply the labor intensive type of cultivation necessary for sericulture and manufacturing required for detailed work for this product.

Foreign sources for silk have not previously been found to have a detrimental impact on the textile industry. Realizing the demand for this fabric was considerably greater before World War II than it is today makes this particuarly significant. In fact, in the quarter of a century since the then U.S. Tariff Commission determined quotas on silk to be unjustified and, therefore, unnecessary, the total imports of silk fabrics has actually declined in constant dollar terms.

Imports of silk in dollars before wholesale markup represents but eight-tenths of 1 percent of the wholesale dollar amount of apparent consumption of apparel in the United States for 1984. Further, silk comprises a fraction of apparel imports for the same year.

Mill consumption of U.S. silk imports for consumption equals only eight-thousands of 1 pound per capita or one-tenth of 1 ounce of silk for each of our citizens. For 1983, a year in which production declined to its lowest volume in 5 years, the United States imported only 3.4 percent of the world's total raw silk production; this, despite having the most dynamic consumer economy in the world, one that could be expected to be particularly susceptible to the marketing of this luxury fiber.

Pound deliveries of raw silk to the United States for 1983 represented only nine-tenths of 1 percent of the unmanufactured wool imported, less than seven-hundredths of 1 percent of the imported manmade fibers, and about seven-thousands of 1 percent of domestic, manmade production. The United States does not produce raw silk materials. The finishing and printing of this fabric is done only in the most insigificant of quantities. Silk is considered a luxury fiber. As such, it is not in competition with the functional fibers such as cotton, wool, and manmade fibers. Also, and most importantly, it sells at 20 times their cost per pound. Weaving of silk is limited to blending it with synthetics for ties and upholstery. This uses only one of hundredths of varieties of silk and it is done by but a handful of firms.

If the importation of silk were barred, there would be no domestic source to supply the demand. It is not a question even of getting this fabric at a competitive domestic price. If silk were limited to domestic production alone, we could not get silk at any price.

Beyond these specifics it is important to consider the ramifications of restricting reasonable access to the U.S. market of a noncompetitive fiber such as silk. The chairman of the Ways and Means Committee will soon leave for a trip to the Far East to promote bilateral trade. He will be visiting with the leaders of two of the countries most responsible for the production of silk, and most important to our foreign policy: China and India.

These countries are upset by the threat to their exports to the United States, but probably can at least understand our desire to help industries that compete with their products, But how can we with a straight face tell them that they cannot export even their noncompetitive products such as silk to earn the dollars necessary to buy American products. Do we seriously believe that these giant countries, virtually shut out of the American market, are not going to retaliate against American exports and seek closer ties with our adversaries?

In the case of China, we would be violating bilateral treaties negotiated when granting most favored nation status as little as 5 years ago in 1980. Though China produces in excess of 70 percent of the world's supply of silk, silk fabric exports to the United States from China totaled only $59 million in 1984. The United States exports to China were in excess of $3 billion for the same year. That is total exports.

China has a trade deficit with the United States of over $10 billion in this decade. Our trade surplus with China represents domestic jobs also. What about these jobs in agriculture, high tech industries, and related fields? The textile industry is already the best protected industry in this country. As we heard earlier, its tariffs averaged 22.5 percent compared with less than 5 percent of all other industries. Even with this advantage, this industry is not creating new jobs. It is small, private, service-oriented companies such as Royal Silk that have created the majority of new jobs in the past 2 years.

Extending restrictions to previously nonrestricted silk fabric will not create new jobs or found new silk mills or create a sericulture industry in the United States. It will only injure the companies that are working successfully in this area already and prevent others from exploiting this manifestly noncompetitive fiber to further invigorate the economy with the creation of new jobs and the expansion of facilities.

For the consumer it would be an unjustified additional expense that cannot be calculated but most probably would be enormous. It is important to remember that silk is not a competitive fiber. One cannot compare silk with the functional fibers even if they were close in price. A consumer does not wear a cotton scarf with a designer evening gown, nor does one purchase silk gloves to shovel snow.

In closing I would like to say that silk apparel suppliers have played by the rules. You may have heard some contention that there is a problem with blends of silk. Any chief value silk blended garments that are brought into the United States were done so according to classifications established by our own officials through GATT negotiations.

Chief value silk is, briefly, anything that is more than 50 percent silk by weight.

At one time it was whatever the predominant fiber was. That, of course, was ridiculous, the classification was rightly changed, and it was changed significantly. Silk garment manufacturers complied accordingly.

Therefore, it is ironic that silk merchants who blend other fabrics with their silk would be charged with circumventing the rules by fabricating garments that are chief value silk when in fact they are complying with the rules. Those who would include silk in H.R. 1562 are trying to get around the rules by barring silk without the give and take of negotiations that went into formulating them.

In closing, it is our contention that this bill as written is not wholly in the national interest. We know beyond a doubt that the inclusion of silk is a considerable mistake, and I respectfully ask that you restrain from imposing these destructive restrictions upon our silk industry.

Thank you, gentlemen.

Chairman GIBBONS. Thank you. Mr. Jenkins, I am going to yield to you so you can explain the silk issue. It is over my head.

Mr. JENKINS. Mr. Pike, do you manufacture in this country?

Mr. PIKE. No; we do not. There is no domestic silk industry. All silk is from the Far East. We manfacture at the source in the Far East.

Mr. JENKINS. Are the products complete and you are simply a sales organization?

Mr. PIKE. We do all the designs here, and then they are made overseas and we bring the finished goods back into the country.

Mr. JENKINS. All production is done overseas.

Mr. PIKE. Yes, sir.

Mr. JENKINS. So you have no domestic manufacturing facilities.

Mr. PIKE. No; we do not.

Mr. JENKINS. Is it not true, of course, as I understand your testimony, that silk is very expensive and therefore does not compete. But I have seen some of the advertisements of the various 50 percent cotton and 50 percent silk, linen the same way, whatever. Is it your contention that there is no direct competition or that those, particularly in sweaters where we have a real problem, that those are not competing directly with sweaters made of other materials?

Mr. PIKE. Yes; it is my contention that silk is a noncompeting fiber, not because of price; even at a similar price, silk is a manifestly different product, and I am not comparing it on a price value. I am comparing it on a manifest difference in the texture and in the quality of the product itself.

Mr. JENKINS. In 1980 there were 60,000 dozen silk sweaters imported into the United States. Last year there 2,700,000 dozen in 1984. Is it your contention that that tremendous increase in a short period of time is not replacing domestically made sweaters?

Mr. PIKE. I believe that that increase is due to a number of factors. One is prior to 1980, if you look at total silk purchase in this country, it was very, very small. The demand for silk in this country really only began around 1980 from the granting of most-favored-nation status to China—silk was embargoed, of course, during the war and after the war our relations with China went into a freeze, and the public was really unfamiliar with silk.

I grant you, that is a sizable increase in the amount of silk coming into the country. I would also point out to you that it is a very small percentage when you consider what the silk market was in 1980 going from zero to something is not of great significance.

Mr. **Jenkins**. Are you aware of the fact that this 2.7 million dozen up from 60,000 is primarily in the blends?

Mr. **Pike**. I am not specifically aware of that figure. No; I am not.

Mr. **Jenkins**. From the advertisements that I see, those sweaters are in the price range of $20 to $30, which is the same price range of other lady's sweaters that are domestically made. So there is direct competition, is there not, from a price standpoint?

Mr. **Pike**. Mr. Jenkins, I will grant you that apparently in that case there's a similarity in price, but again I would say if you own a silk tie and you own a polyester tie, you certainly know the difference. If you own a silk suit and you own a polyester suit, you certainly know the difference. You are not buying the same product and it does not have the same qualities, nor does it have the same durability, the same insulating factors. It does not have the same hand. It is a different fabric.

Mr. **Jenkins**. Sweaters generally are under quota.

Mr. **Pike**. Yes, they are.

Mr. **Jenkins**. But so long as there is not more than 50 percent of the other product other than silk, they are not under quota.

Mr. **Pike**. Yes, correct.

Mr. **Jenkins**. So, obviously, that is the reason you are seeing a 50-50 blend because they simply are not under quota. Is that not correct?

Mr. **Pike**. I would grant you that that probably is a reason, yes; I would also like to think that one of the reasons is the demand for silk has risen in this country as the consumer has been more exposed to it and more has been made available.

Mr. **Jenkins**. That is an excellent way to circumvent quotas. If there is a problem with sweaters and they are under quota and silk products are not included in the MFA quotas, then a blend, obviously, of the 50-50 proportion is a way to avoid the quota that is normally on for sweaters generally. Is that not correct?

Mr. **Pike**. I would grant you that that would be a way to do it. I would also point out to you in your bill you stipulate that a wool product be considered anything as low as 17 percent.

Mr. **Jenkins**. I am having a lot of problems with the sweaters right now involving 50 percent silk and 50 percent other products that are not under any quota. That is my problem. I am attempting to address that problem, which I do not think is occurring because of a sudden demand. As I look at the figures, there is a sudden demand for silk. I think it is because of a desire to get around the quotas. And I grant you there is nothing illegal. They are complying, as you indicate, with the law, but they are replacing sales from other sources.

Mr. **Pike**. That is correct. They are complying with the law. And there is also tariff on those sweaters, which, of course, would not be on domestic sweaters, a tariff which has to be paid.

Mr. **Jenkins**. I understand that, but I wanted to explain to you the reason why silk is included within the provisions of the bill. I thank the panel for their testimony.

Chairman **Gibbons**. I am not familiar with silk sweaters. Can you tell me the difference between a silk blend sweater and any other kind of sweater—are they different sweaters or look different, feel different, wear different?

Mr. **Pike**. Certainly they feel different. Certainly they wear different. The hand is much more luxurious for a silk sweater. It drapes better. I would contend that it has more durability. It is a very resilient fabric and it insulates better than the other blended sweater.

Chairman **Gibbons**. Your contention is that the silk sweater is just a different kind of sweater. Is that right?

Mr. **Pike**. Yes. It is what the law says it is. It is silk.

Chairman **Gibbons**. What do they blend with silk sweaters?

Mr. **Pike**. There is a variety of materials that silk can be blended with. It can be blended with cotton, which is very popular. It can be blended with wool. It can be blended with angora.

Chairman **Gibbons**. I tell you, that is a nice blend there. Mr. Heftel, why don't you go next.

Mr. **Heftel**. I think a distinction is needed for silk and I do not know technically what has to be done when you make the distinction so that it is not abused in terms of the blends. And I guess, Mr. Chairman, we would, if we go ahead seriously with some kind of legislation, we have to figure out how to exempt silk on the one hand and not create the opportunity for abusing the intent of the legislation by the way that blends are brought into the country.

Do you have any observations on that, sir?

Mr. **Pike**. Well, I think there are really quite a number of ways to handle it without this legislation. There is of course, as I mentioned in my exchange with Mr. Jenkins, there is a tariff involved here. You can make adjustments in the tariff. You can always, of course, mandate a higher content in the blend than you mandate at present, higher than 50 percent. I think there are other creative solutions.

You could perhaps limit to the kind of fibers that you can blend with. That can be done.

Mr. **Heftel**. Thank you. Thank you, Mr. Chairman.

Chairman **Gibbons**. Mr. Campbell.

Mr. **Campbell**. Let me ask you one thing: Your contention is, of course, that we should leave anything that is pure silk out.

Mr. **Pike**. That would be my contention in that there is no domestic supply and there is no sericulture industry.

Mr. **Campbell**. But you would be amenable to a solution to try to deal with the blend.

Mr. **Pike**. Well, I believe if the blend—we do not see the blends as a different product. We see it as a silk product, as it's classified under the MFA. But certainly if a solution has to be reached, the art of politics is compromised. And there is room, as I said, I think working with tariffs and working with the content that you can blend silk into a garment with and the kind of materials you can use are immediate areas where some remedy or some correction, if that is a problem, can be found.

Mr. CAMPBELL. But you recognize the major difference between the problem with blends and the problem with the raw silk?

Mr. PIKE. I think, sure, there is a different problem between the raw silk, the pure silk garment, and the blended garment.

Chairman GIBBONS. All right. Well, thank you, gentlemen. I appreciate it.

Next we have the American Free Trade Association, Mr. Case and Mr. Fisher, and we have the Northwest Fair Trade Alliance, Mr. Sobol.

STATEMENT OF DONALD G. FISHER, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, THE GAP, INC., ON BEHALF OF THE AMERICAN FREE TRADE ASSOCIATION [AFTA]

Mr. FISHER. Thank you, Mr. Chairman.

My name is Donald Fisher and I am the chairman and the chief executive officer of the GAP Stores, Inc.

I would like my written statement to be recorded in the record.

Chairman GIBBONS. All right, without objection, sir, your statement will be included in the record.

Mr. FISHER. We are a public corporation with 630 stores in 42 States in the United States and we are employing approximately 10,000 people.

We sell casual apparel to low and middle income people. In 1984 we did $520 million in sales and we sold 36 million units of which 25 million were produced in the United States.

Seventy percent of what we sell are private label and our company is vertically integrated. That is, we have manufactured for us under our own private label, 70 percent of what we sell. There has been very little discussion in this hearing of the concern for the consumer.

And we are at this point, offering the consumer the lowest price that we can in order to make a profit. Last year our company made 2.3 percent on sales after taxes and we cannot make much less than that and stay in business.

Retailing is the most competitive industry in the United States at this time, and the prices that we are setting are set by our competitors, not necessarily by ourselves. That is to say that when a product is sold at a competitive price at another store, we have to meet that competitive price, so that it behooves us to get and purchase whatever we can at the most reasonable cost to ourselves.

We must buy at a competitive price and competition must be setup based on quality and cost as well as just price. As I mentioned before, we buy approximately 70 percent of what we sell from domestic sources and approximately 30 percent from the Far East.

The present tariffs and quotas and other restrictions are keeping American products competitive. Otherwise, the consumer would get a better deal if there were no tariffs and quotas.

But at this point, the American consumer is paying approximately $24 billion in tariffs and quotas that are going to both the people in the Far East as you discussed as well as the U.S. Government.

I find a problem because we are vertically integrated, we do not own factories ourselves, we work through contract, and I find a problem with what I just heard about some of the smaller contractors in the Pennsylvania area.

We have a very difficult time finding factories that market themselves the way that they do in the Far East. In the Far East we are able to buy a product which is a total product; we order it complete. In the United States we find that we have to buy the piece goods from one source and the zippers from another source, and we have to buy the buttons from another source and we have to send them all to the small factories which are cut, make and trim factories, generally in order to have these things all assembled.

The risk is all ours, if the product does not come out properly, we end up being sold a defective piece of merchandise that we have to get rid of. The people in the United States in the smaller factories are not competing as they have to, they are not marketing themselves the way that you would have to do.

We have to chase all over the United States to find a factory that will package the product for us. In addition, the NMRA has given us some statistics and I would like to relate them to you.

Chairman GIBBONS. You said something there that startles me because I had wanted to look at those Pennsylvania factories a little closer and I have just not had the time.

Describe to me again, what you have to do when you do business with them?

Mr. FISHER. Well, factories in the United States, we have to buy the piece goods from a textile mill, we have to buy the zippers from the zipper manufacturer; and we have to buy the buttons from another manufacturer, and we have to buy the rivets from somebody else and we have to buy the little tickets that we have sewn onto our pants and we have to buy all the little parts that go into it.

We send them, you have heard of cut, make and trim, and we send them to a factory and they assemble them all for you.

When you buy in the Orient, you buy a finished product and that product is inspected by us before it is shipped to us, and if it is defective, we do not accept it. In this country, if it is done and it is not proper, we have already bought the piece goods, they belong to us, and we have bought the zippers so that they belong to us. We have bought the——

Chairman GIBBONS. Everything but the labor; is that right?

Mr. FISHER. That is correct.

Chairman GIBBONS. I did not know that. That is somehow startling to me.

Mr. CAMPBELL. That is the way that you buy but that is not the way that you have to buy.

Mr. FISHER. We do not find many factories that are willing and that market themselves to go out and package the goods like they do in the Orient. We do not want to buy that way in this country because we end up taking all the risk.

Mr. CAMPBELL. I have a very large apparel company that happens to be in my area, that also does private label work, they do the whole thing.

Mr. FISHER. I am not saying that everybody does it.

Mr. CAMPBELL. What I am really saying is that you can buy in this country, the product.

Mr. **Fisher**. Well we do and I am saying that we are buying 70 percent of what we sell in the United States.

Mr. **Campbell**. Yes, but I mean, you can buy the finished product in this country. You can contract.

Mr. **Fisher**. Yes, you can with certain factories. I mean there is nothing that——

Mr. **Campbell**. Do you find that you can do it cheaper this way, is that the reason that you do it?

Mr. **Fisher**. We do not like to do it that way and generally speaking, you can do it cheaper if you take the risk, but taking that risk is very dangerous and most of the factories that I am talking about, most of the smaller apparel manufacturers do not have the capital to go out and buy the piece goods and to buy the rest of the parts that go into it.

Mr. **Campbell**. If you gave them an order for a product they could, could they not?

Mr. **Fisher**. They would add so much profit onto it, that it would not make it competitive.

Mr. **Campbell**. Mr. Chairman, forgive me for belaboring this point, but——

Chairman **Gibbons**. No; that is all right.

This is an interesting point.

Mr. **Campbell**. When you order in the Far East, when you place an order if you went to an American manufacturer and went to somebody else and you ordered *x* number of dozen of a product in advance, finished, then that person can take your order and purchase whatever they have to do incrementally. If you placed the same order with somebody the same way in this country, they could go out and buy the buttons and buy the label and put it in too.

Now, my question would be, do you give the same leadtime to your orders domestically for a complete product as you do overseas?

And second, do you pay them the same way that you pay overseas?

Mr. **Fisher**. There is no reason that we would not give the same leadtime.

Let me just get into one thing, as long as you are bringing this up which relates to the difference between doing business overseas and doing business here, because you are implying and I heard you imply that because the people give you dating in the United States, that that is a higher cost to the manufacturer. He does not have to give you dating, he can sell it to you FOB or with letters of credit on the day that he ships it, if he is smart enough to offer it to you that way.

I made a list here of the differences of the way that you end up doing business.

Mr. **Campbell**. A lot of major retailers will not take it that way and they will do business elsewhere.

Mr. **Fisher**. Well, in order to compete at the present time, most of the domestic manufacturers, such as Levi Strauss is an example, give you, and the branded companies, give you a 5-percent advertising allowance. The imports do not give you any advertising allowance.

Transportation is sometimes paid for domestically, and these are on branded goods not contracted goods. On imports there is no allowance for freight. On domestic goods, the return, you are allowed to return defectives. And on imported goods you have to absorb the defectives in your costs. There is a shorter leadtime domestically generally and a much longer leadtime for imports. The domestic people give you discounts for more prompt payment and when you purchase overseas you have to pay net on letters of credit and in the United States there is payment dating of the Levi product that you asked them about, you pay, if you have it shipped to you on the 26th of the month, you pay for it on the 15th of the following month, so that you get 45 days dating on the Levi product. Their cutoff date is the 25th of the month. When you buy imports, you pay f.o.b. to the dock and there is interest charges, obviously that you have to absorb that take between 45 to 90 days worth of interest.

So that buying overseas and the cost of the product overseas, you have to add these other things into it, in order to come out with what your gross margins might be or your markups might be. Generally speaking, what you are hearing what the landed cost of the product is, without adding on these other things that are being offered to you in the United States by the domestic manufacturer.

I have got a little further information here and we took and through the NRMA found out some profit information. The department store's pretax profits in this country are running about 5.8 percent. Specialty stores at 3.8 percent. Our profits are 3.8 percent. Textile mills are running at 5.7 percent which is just about equal to the department stores on the basis of sales. Now, the two largest manufacturers that I know of, both Levi Strauss and the V-F Corp. which is H.D. Lee's product, are the Levi Strauss Co. with the exception of the last year when they had a big problem. Between 1980 and I would say 1983, their profits ranged in the neighborhood of 14 percent pretax.

The V-F Corp., which is H.D. Lee, their profits are running in the neighborhood of 20 percent pretax. So that the apparel selling retailers, whatever the markup or the cost that they receive their product for, overseas, is melded into an overall margin for the whole company.

We could not earn much less than our 2.3, and after taxes it is about 3.8 percent, pretax and still be able to do business so that what we purchase offshore is melded in and the difference is passed on to the consumer. And the consumer is really the one that is setting the price with the other retailers down the street from us.

If this bill passes, the prices in the United States are definitely going to go up because of supply and demand. When you cut out the number of units that are being shipped from the Far East into the United States and you throw that onto the factories in this country, you know that they are going to raise their prices. They just have to because of supply and demand, our prices are going to go up.

And the prices overseas are also going to go up because the more expensive garments are going to be made over there.

We, as a company, will be economically affected by selling less units at higher prices. The consumer will be economically affected, they are going to be paying higher prices or they are going to be getting lower quality or both.

And frankly, I think that this whole bill will create a very great inflationary problem in the United States. At last, we have been able to keep the inflationary pressures down.

We are equally concerned about jobs and the statistics that we have shows that at least in the retailing industry there would be as many jobs lost as there are in the textile and apparel industries so that it is a wash there. But there are other industries that might be affected. It is very difficult for me to give you any information.

I do not believe that this legislation is, in the long term, a solution for this country. The present MFA is very restrictive and getting more so. The Government may have been lax, I am not sure about that, but I do know right now that it is getting more and more restrictive. The value of the dollar alone, I think is going to be an important counterbalance to what has been happening here in the past.

Six months ago, the dollar was $1.05 against the pound, today it is a $1.39 and so that where we were able to purchase a product in Italy, on that basis, tomorrow, right now, we are unable to buy that product at the same kind of cost and we would not go to Italy any further.

I think that we have to wait and see and give the administration a chance to renegotiate the MFA, the multi-fiber agreement because that is coming up right now, and next June, it expires and I think that they have really received the message. You should not rush into this, the implications nationally and internationally are enormous.

The GAP's interest are dictated by two considerations; profits and our customers. And we are opposed to this legislation because it runs afoul of both of these considerations. Protectionism is not good for competition, and reduced competition is not good for the American consumer; our customer.

In conclusion, I want to stress that the retail apparel industry is highly competitive and the consumer is the direct beneficiary of that competition.

I want to thank you very much for letting us speak before you today.

[The prepared statement follows:]

Statement of Donald Fisher, Chairman, The Gap, Inc., on Behalf of the American Free Trade Association [AFTA]

Good afternoon. My name is Donald Fisher and I am the Chairman of The Gap, Inc. I am testifying today on behalf of The Gap and the American Free Trade Association.

The Gap, Inc. is a publicly held corporation that employs over 10,000 in 630 stores throughout the United States. Last year we sold over $500 million worth of apparel from our stores (36,000,000 pieces) seventy percent of those goods were purchased from domestic suppliers. Seventy percent of the stores goods are made for The Gap under our own label and twenty-five percent are made by Levi Strauss & Company. The Gap started with a single store in 1970, and has grown steadily to its present size due to a simple success formula. Our philosophy is to pass on the advantage of purchasing low cost goods to our customers. The Gap is a vertically integrated company that brings the maximum amount of quality goods to the consumer at low prices. We have been successful because our pricing system has allowed for access to low priced foreign and domestic goods and this, combined with sound management and a low profit margin, has resulted in our growth.

The apparel business is extremely competitive and the beneficiary of that competition is the consumer. Most retailers purchase the vast majority of their goods from domestic sources, as does The Gap. Of course, we also import apparel from overseas. All of these purchases, domestic or foreign, are market-driven by the needs of our customers. Their needs are variable; sometimes it is price; sometimes it is quality; sometimes it is innovation; sometimes it is fashion uniqueness. Whatever their need, it is our objective to meet it. In a sense, we are the aggregator of goods for our customers. If we are right, we make a profit. If we are wrong, we do not. We, at The Gap, enjoy success because we have brought value, style and quality to our customers. Unfortunately, our ability to fill those customer needs has been increasingly and severely restricted by a combination of import controls, quotas, high tariffs, and administrative directives which now regulate trade in textile and apparel to a degree unmatched by any other domestic commodity or manufactured produce. As a result, retailing has been severely hurt not only by all of the economic vagaries that have beset the nation, but also by the additional problem of unnecessary unfair, and often unpredictable restrictions on our purchase of goods from abroad.

Retailers deal with the existing restrictions and other trade problems everyday. Competition in the retail business if fierce. Retailers do not have the luxury of the guaranteed market share system sought by the domestic textile and apparel industries. In fact, I know of no other industry in this country that enjoys this unprecedented system of legislated market share. Retailing is an easy access industry. Ingenuity and hardwork still combine to produce profits and successful companies. Retailing is still a tribute to the values that this country was founded on. Competition has successfully weeded out those companies that could not compete. The Gap was built, in part, because its management could adjust to America's changing lifestyle and adapt its business to a changing economy.

Because retailing is such a competitive industry, profit margins have historically been very low. For example, according to the most recent study prepared by the National Retail Merchants Association, the pre-tax earnings of department stores as a percent of sales were 5.83 percent, and for specialty stores only 3.76 percent. Our own company is considerably below these figures. This compares with 7.4 percent for nondurable manufacturing and 5.6 percent for textile mill products. This legislation will hurt the free market business with low profit margins, while further protecting the most protected industry in America.

Competition for retailers means constant adjustments. The old cartoons about the price wars between two retailers on Main Street have been readily repeated all over America. Price is only one engine that drives this system. The other is quality. The retailer that can combine quality, quantity and price can succeed in America. It is the customer who decides who is successful.

I would like to try to correct some fundamental misconceptions about the term "markup". First of all, there are four retail accounting terms that are sometimes confused or used incorrectly. The first is "gross margin", which is basically the difference between what was received for a sale and what the direct costs associated with that sale were. In retail accounting this involves a consideration of purchases, discounts, shortages, and ending inventory. The second term is "profit", which is basically the gross margin number minus all other expenses. The third term is "markup", which is not gross margin and not profit, but an arbitrary number that is applied to the retailer's purchase price for goods to arrive at an initial selling price. If the selling price is later changed (and when products are not sold the price is reduced in order to promote a sale), this change is effected in retail accounting terms by a "markdown". Keep in mind that the retailer's goal is not to have the highest markup—his goal is to sell the product. Thus, if his initial markup is too high, a markdown must be taken in order to reach the desired goal.

Let me further note that the "first cost"—the price the retailer pays to its vendor, whether domestic or foreign—contains different elements for a domestic product than for an import. As a result, the "markup" on these products will vary to adjust for these different components. A domestic product typically comes with direct advertising by the manufacturer, a co-op advertising offer for the retailer, some or all of the transportation paid, a return option, shorter lead time for ordering, and other items, as well as a discount for payment within certaing agreed upon time frames. None of these are available when a retailer goes overseas to buy a product. The "markup" on imports, thus, tends to be higher to cover those costs and a variety of expenses not included in the cost of a domestic product.

It is misleading and disingenuous to compare the markup on imported and domestic products. First, imports involve significantly higher buying expenses. One of the substantial costs is the difference in payment terms between foreign and domestic purchasers. Second, the long lead time required on imports raises their cost to retailers. Third, risk factors are substantially higher in imports, defective foreign goods must be retained by the retailer, and the retailer takes the risk of change in fashion styles. Fourth the final cost of imports is harder to predict because of currency fluctuations, changes in customs valuation, and the like. Fifth, retailers directly assume many costs on imports borne by manufacturers on domestic products.

Keep in mind that the details of this discussion regarding markups on imported products relates to only 30 percent of the products that were sold by The Gap. I think it is obvious that retailers prefer to buy domestically.

I would like to make some specific points about this legislation. There has been a substantial amount of information supplied by both the supporters and opponents of this bill on what it will do if enacted. In business, we call this information overload and it generally results in chaos. It is our view that legislation as sweeping as this must be carefully and objectively looked at. We are concerned about domestic production and jobs in the textile and apparel industries. These workers are the type of customer to which our products are aimed. Loss of their buying power will hurt our business. Everyone knows that America is faced with high trade and budget deficits and that many domestic industries are struggling to adjust. This legislation though is not the answer to their problem, and it is certainly not the answer to the nation's problem. Protectionist legislation can only trigger effects that will decrease domestic employment in other sectors, increase cost to consumers and cause further inflationary impacts. These impacts combined with the potential for retaliation against our exports argue strongly for a thorough and complete analysis of the problems of the domestic textile and apparel industry before we trade jobs in textile plants for jobs in retail outlets. The rush to judgement may be good politics back home, but it is poor national policy. I would ask that theis committee hold hearings in the fall to address the enormous compilation of data and controversy and to proceed in a rational way to determine the real problems which this bill attempts to address; the balanced preservation of a domestic industry without substantial harm to the rest of the economy.

A retail company's single greatest resource is its customers. There is almost a paternal sense about our Company's relation with its customers. The Gap clearly wants to make a profit, but it also wants to protect its position with its customers so that The Gap will be here tomorrow, the next day, and the next. I do not profess to be able to accurately predict the economic outcome of this legislation but I can say that this legislation is not good for our customers.

A recent International Business and Economic Research Corporation assessment concluded that the restrictions will cost apparel consumers an extra $2.4 billion annually and textile consumers $1.0 billion annually. This is in addition to the costs of the present protectionist measures, which have been estimated by economists to currently cost the American retail customer over $23 billion annually.

In the first five years of the proposed legislation, the total cost to the apparel consumer has been estimated at $11 billion in 1984 dollars, and to the textile consumer, $4 billion in 1984 dollars.

It is estimated that apparel import prices would increase on an average by 16 percent at wholesale and textile import prices by an average of 33 percent. These increases reflect both quota-induced price increases and product upgrading as foreign producers concentrate on the export of higher unit-value goods. These increases will also have an upward effect on domestic product prices. There will not be any net gain for consumers from this legislation, only increased prices and decreased selection. It is in our interest to have a strong domestic textile and apparel industry, and it is in our interest to have fair foreign competition. The Gap's interests are dictated by two considerations—competition and our customers. We are opposed to this legislation because it runs afoul of both of these considerations. Protectionism is not good for competition, and reduced competition is not good for the American consumer, our customer.

In conclusion, I want to stres that the retail apparel industry is highly competitive and the consumer is the direct beneficiary of that competition.

STATEMENT OF MARK R. SOBOL, EXECUTIVE VICE PRESIDENT, GENERRA SPORTSWEAR, ON BEHALF OF THE NORTHWEST APPAREL AND TEXTILE ASSOCIATION AND NORTHWEST FAIR TRADE ALLIANCE

Mr. SOBOL. I am Mark Sobol and I am the chief operating officer of Generra Sportswear. I would like to, in the interest of time, just briefly verbally summarize my previously submitted written testimony.

Chairman GIBBONS. Fine, sir, and we will enter your full statement into the record.

Mr. SOBOL. Thank you.

I am here representing the Northwest Fair Trade Alliance. It is a coalition of Northwest industries that are opposed to the passage of the Textile and Apparel Trade Enforcement Act of 1985.

I would first like to briefly give you a history of Generra Sportswear. We were founded in 1980 and at that time, we created virtually a new segment of the apparel market. We saw our purpose as to interpret world fashion trends, design them for American tastes, and the American physique, and sell them at moderate prices and market them as a coordinated concept, a collection as it is known in the industry.

Over the last 5 years, we have enjoyed tremendous growth, it is really, I think, a major American dream story, and we are currently enjoying sales in excess of $150 million. We employ 300 American workers, and we are headquartered in Seattle, WA. The effects to my company would be substantial and unfair business disruption.

I believe that that disruption would be sudden and damaging. We have no certainty that we can find appropriate alternative sourcing in a timely manner. We believe that we would have a higher cost of doing business as well, in the finding, developing and training of those new sources. Creation, in other words, of other relationships. The relationships that we have currently in the Pacific Rim countries have taken up to 15 years to develop.

We believe that we would incur higher production costs, and what that means is increased overhead and lower profits. We could also have lower sales and we are very concerned about that because one of our purposes as a company has been to price our goods moderately so that they are affordable to more people. We believe that we would be substantially damaged in that way.

Our products are very price sensitive. We therefore, see potential job loss, major job loss in our particular company and in our Northwest industry group. When you include the current import regulations as well as the import licensing scheme of this bill, really all of this adds up to an unacceptable amount of risk for any business in our country.

Apparel is the No. 1 import in the Northwest as well as for the west coast and this amounts to over $2 billion in the Seattle area alone. This represents 13.4 percent of all cargo through the Port of Seattle. Seattle is enjoying the position as our Nation's fourth largest apparel center.

There are over 30 companies headquartered in Seattle. However, this is not just an import issue; our exports, timber, wheat, fish, fruit, high-tech electronics, and of course, aerospace, are in part, purchased by the revenue generated in Pacific Rim nations. They are the fastest growing market for the Northwest and because of our very high volume of textile trade with them coupled with possible worldwide trade retaliation because of this bill, we believe that Northwest businesses would be faced with sudden, damaging and again, unacceptable risk that could affect the economy of our entire region.

In the Seattle area alone, over 350,000 jobs, American jobs, are directly related to import and export—350,000. Two hundred and ten thousand American jobs are directly related to Pacific Rim trade. In Washington State alone, there is approximately a $6 billion payroll, American payroll, that is directly related to our trade cycle. What this comes down to, is the fact that this protectionist legislation will not produce positive economic growth. What we need is for the ability for growth and change through intelligent and well applied fair trade policies, not protectionism.

Thank you for the opportunity to testify and I am open to any questions that I have.

[The prepared statement follows:]

STATEMENT OF MARK SOBOL, CHIEF OPERATING OFFICER, GENERRA SPORTSWEAR, ON BEHALF OF THE NORTHWEST APPAREL AND TEXTILE ASSOCIATION AND THE NORTHWEST FAIR TRADE ALLIANCE

Good afternoon, my name is Mark Sobol and I am the chief operating officer of Generra Sportswear, a Washington State-based business. I am testifying today on behalf of the Northwest Apparel and Textile Association and the Northwest Fair Trade Alliance. The alliance is a coalition of industries in the Pacific Northwest which will be impacted if the Textile and Apparel Trade Enforcement Act of 1985 (H.R. 1562) is enacted into law.

Northwest industries are almost universally opposed to the provisions of this bill. This bill is a substantial departure from the present philosophy of multilateral cooperation and bilateral implementation. H.R. 1562 will restrain imports of all fibers but will impact Pacific Rim countries most severely. Exports of other Northwest products to Pacific Rim countries could be severely impacted by those countries' reaction to this bill. In addition, the bill proposes a new regulatory burden for importers with the corresponding supporting bureaucracy to enforce it.

The Northwest apparel industry will be significantly impacted by this legislation. Our importing industry is relatively new in terms of other large industries in the Northwest. Many of our companies have been in existence for less than ten years and have experienced fantastic growth. The Northwest apparel industry is a substantial contributor to the Northwest economy. The Port of Seattle had over two billion dollars of apparel imports last year. It has been estimated that the Washington State-based textile industry enjoyed over six hundred million dollars in sales and that Seattle is now the fourth largest center of apparel companies in the United States following New York, Los Angeles and San Francisco. There are now at least thirty apparel firms in the Seattle area alone. These companies source almost exclusively in the Far East, the area most impacted by this legislation. Quota rollbacks, as proposed in this legislation, will not allow for a continuation of the basic lines of many of these companies without a substantial transformation of sources and apparel design. In effect, the legislation will close the door to sources of supply for many Northwest apparel companies, jeopardizing the existance of the companies themselves.

The implications of this legislation are so significant to the economy of the Northwest that an alliance of related industries has been formed to oppose the bill. The Northwest Fair Trade Alliance is composed of the members of the Northwest Apparel and Textile Association; the Ports of Seattle, Tacoma and others; Freight Forwarders; Customs Brokerages; trucking companies; importers; exporters; and other impacted industries.

GENERRA'S HISTORY

For Generra, this legislation will curtail the growth of a company that has been on a steady growth curve since its founding in 1980. The apparel business in the United States is one of the few areas left where you can still experience the American dream. Despite the high level of protection for the domestic industry, people can still enter the industry and through hard work, ingenuity and a little luck, and produce a product that competes successfully. Generra was started out of a basement and has grown in the last five years to $150 million in gross sales. For myself, at thirty-three years of age, I have been able to help build a company and a brand name that is recognized throughout the country. Generra now employes 300 people in the United States alone, at an annual payroll of about $6,000,000. This kind of success, which can be seen in a number of companies on the west coast, is a direct result of the American free enterprise system. We have built our success on our ability to combine international fashion trends with the American physique and life style. When Generra was first founded there was no coordinated sportswear industry in the United States. Generra created it, combining for the first time the concept of coordinated sportswear. This is now a substantial market niche in the United States which did not exist prior to 1980. The clothes that Generra produces are generally more stylish than dometically produced apparel and are more difficult to make. Our production has come primarily from Hong Kong and China, two of the countries targeted by H.R. 1562 for significant rollbacks on quotas.

From a commercial angle, existing quotas already dictate the level and type of product line that we are able to produce. We have had to work with the existing quota system to ensure that our line can be delivered to our customers twelve months after we begin production schedules. This long lead time, coupled with the uncertainty of distribution of the existing quotas, increases the risk to Generra and potentially increases the cost to the consumer. The major changes that would be required by H.R. 1562 would be devastating.

OUR COMPETITIVE POSITION

Generra products must be competitive with other imported garments as well as domestically produced garments. Generra has been successful in creating a new market niche, which no domestic manufacturers participated in that appeals to a specific consumer segment. This consumer group requires a style and quality that we have been unable to reproduce domestically. The sewing of a Generra shirt is much more complicated than the typical domestically produced shirt. It requires double stitching, flaps, extra pockets and buttons and the fabric itself is generally more difficult to match. This type of garment requires excellent work by a trained labor force to produce a consistent garment.

If this bill were to be enacted, Generra would be required to source its goods elsewhere or pay substantially more for the same goods in Hong Kong and China. If we remained with our present sources, costs would increase inversely to the size of the quota available. In a free enterprise system, it is simple economics to realize that an artificial control on supply drives up the cost.

I do not believe that we could obtain our product line elsewhere without some substantial increase in costs. The increase, estimated at 20–25%, would result initially from the need to train people to sew our line. The continuing costs would be from labor and other production cost differentials. These are cost increases before the addition of an already protective U.S. tariff. At the very least, the rolled back quotas would cause industry wide business disruption. Hundreds of companies would be forced to look for new sources in South America, the Caribbean and Europe to meet their quality and style demands. This rush would, at the very least, drive up the cost of our goods, if we could obtain alternative sources at all.

This bill will in effect drive up the costs of apparel to the consumer in a market sector Generra created. In effect, it will protect the domestic manufacturer from American ingenuity.

THE PACIFIC NORTHWEST ECONOMY

I would now like to address the impact of this bill on Pacific Northwest. The Pacific Northwest is rich in natural resources and has significant agricultural interests. Timber, wheat, fruit, and fish are all substantial exports from the region. The Ports of Seattle, Tacoma and Portland are the region's gateways for a substantial trade in goods with the far east. Everyone is aware of Seattle's aerospace industry but many other industries highly dependent on exports are also in the Seattle area, like electronics and high technology.

Many of these companies are not impacted directly by this bill but are concerned because of the bill's implications for a major component of their business—exports. Protectionist legislation does not go unnoticed by exporters. Their customers often use the exchange generated by imports to purchase U.S. goods. For the Pacific Northwest, this means that textile imports from the Pacific Rim countries are necessary to allow much of our natural resources and manufactured products to be exported. Our company does a great deal of its manufacturing in China. The foreign exchange generated by our activity can be used to buy softwood logs from the Oregon, Idaho and Washington forests. China has already threatened retaliatory action if this legislation passes. The simple commercial fact, however, is that if this legislation passes, China will lose a portion of its ability to generate foreign exchange and will not be in a position to buy U.S. natural resources and high technology.

Those service companies directly related to international trade are concerned about the direct loss of imports of textile and apparel. Almost two billion dollars of apparel and textiles were imported through the Port of Seattle in 1984. This represent 13.4% by value of all of the imported cargo through the port. Apparel was the number one import by both volume and value for the Port of Seattle as it is for the entire west coast. These import not only represent jobs at the ports but are the staple of many of the related service industries. Customs brokerages, freight forwarders, inland transport (trains and trucks), banks, and insurance companies all depend on this large volume of imports to support their businesses.

In the State of Washington, there are 350,000 jobs which are directly related to either exporting or importing, 210,000 are related to trade with Pacific Rim countries, six billion dollars in state pay rolls are affected by the trade cycle. Although the impact on Washington State is the most significant, international trade is an important component of the overall economy of the region. This bill, if enacted, will cost jobs and revenue vital to the region.

IMPORT LICENSING

Not much has been said about the six of the bureaucracy necessary to properly implement an import licensing system. As I have said earlier, importers already have more variables to deal with than domestic manufacturers. The long lead times required to get products to the market place will be further disrupted by the implementation of this licensing system. Hundreds of importers, all claiming access to quotas, will require the Secretary of Commerce to verify each and every application. Millions of licenses will be required to cover each of the 250,000 textile and apparel items imported monthly. The people needed to process this amount of paperwork will be staggering. At the very least, initiation of the system will cause broad based market disruption. At its worst, the licensing system will create the kind of nontariff barriers which will further curtail imports below the already low quotas in the bill. The system will be a bureaucratic nightmare that will be paid for twice by the American consumer in the form of higher prices and by the American taxpayer in the form of higher taxes.

FAIR TRADE

This bill represents a substantial deviation from the Nation's long-term position favoring free trade. The Alliance recognizes the problems of domestic textile and apparel manufacturers, but feels strongly that those problems should not be solved by unilateral implementation of protectionist legislation. As the Administration correctly pointed out in its June 19, 1985 letter to all Members of Congress, the domestic textile and apparel industry is protected by relatively high tariffs in comparison to other domestic industries and has benefited from this Administration's aggressive imposition of quotas. These new quotas have resulted in coverage of approximately 80 percent of all imports from developing countries. These quotas have all been established consistent with our international responsibilities under the Multifiber Arrangement. Our trading partners have participated in these negotiations as they will in the upcoming Multifiber negotiations. We believe in the concept of free and fair trade. It is important to the Pacific Northwest and to the country as a whole. We do not want to be taken advantage of by foreign countries which do not endorse there concepts, but we can not endorse this kind of response to a domestic problem.

CONCLUSION

In sum, Mr. Chairman, the passage of this legislation will seriously threaten the viability of the apparel industry in the Pacific Northwest and have a severe negative impact on many related industries. Our companies have been built on successful business strategies which rely on high quality imported products. I am convinced that the Northwest industry's current strategy is productive and effective and in the best interests of the American consumer and the American economy. I appreciate the opportunity to testify and am prepared to answer your question. Thank you.

STATEMENT OF ROGER KASE, PRESIDENT, RETAIL DIVISION, ESPRIT de CORPS, ON BEHALF OF THE AMERICAN FREE TRADE ASSOCIATION

Mr. KASE. Mr. Chairman, my name is Roger Kase, and I am the president of the retail division of Esprit de Corps. I would like to orally summarize my prepared statement and submit it for the record.

Chairman GIBBONS. Without objection, it will be entered into the record.

Mr. KASE. Thank you.

Esprit de Corps is a San Francisco based company with annual volume last year of $220 million. We are also a worldwide company, worldwide we are about $670 million. The $220 million is in the United States. We do about $160 million in women's wear and about $60 million in children's wear.

What I would like to do is to summarize some of the difficulties that we have had as a company over the years in terms of developing our business. And I think that they are pertinent to this issue.

We are currently a 95 percent import company. We do 5 percent of our products domestically. We started out as a 100 percent domestically produced company. One of the things that has turned us toward the Orient has been the intransigence of the various domestic textile mills. As we were growing we were never able to get the 1,000 to 2,000 and 3,000 yard cuts that we needed to create a fashion type of product which is what we were famous for. We do 500 to 700 products per season and that is entirely what we have based our business on.

Additionally, we have noticed over the years that the large textile mills have a habit of taking care of the import situation by, for instance, bringing in Chinese fabric, undyed, dying it in the United States, buying it for 70 cents overseas and then trying to offer it to us at $2.50 a yard.

We also have had the experience of working with U.S. fabric mills in Hong Kong, we have taken fabric and moved it to Hong Kong in hopes that we could take advantage of the so-called better corduroy that we find in the United States.

Generally speaking, it has been a disaster, we have brought it over and no one has ever been willing to stand behind their products and we have found countless flaws within the products and it has caused many, many nightmares, because by the time that it reaches there, they are not willing to bring it back to the United States because of the expenses incurred.

The biggest problem, I would say now that we are a large company, and we can deal on a very large level with virtually anyone in the world, the biggest problem that I would say for the new entrepreneur trying to enter our business and this has been an entrepreneurial spirited business. With that in mind, how do they go and get the 1,000 yards that they need of a specific fabric so that they can get the small cuts into the small stores and develop their business in a prosperous way?

We have also had experience with highly protective quota mechanisms throughout the world. As I mentioned, we are an international company. Our German company is a $120 million company. And we had the experience in 1977 of the new EEC in essence, their multifiber agreement——

Chairman GIBBONS. When was that?

Mr. KASE. In 1977. We went through that experience and in essence that put us in the position where we are today as the American company. It has not taken it and made it far more restrictive to import into Germany, on the contrary, it is basically about the same level of restrictiveness that we have now in the United States.

The ease of importing is roughly the same therefore. Additionally, we have experienced also that in the last 7 to 8 years there has been a flattening of the market in Europe. While our German company has grown, probably because of the product, I would like to think so, the general climate has been recessionary and I would say that the 6 percent increases that have been happening in Europe are probably more due to that than they are to specifically the multifiber agreement that they have arranged for the ECC countries.

The other main issue is obviously the consumer issue. If we are in a position where we must restrict what we are able to bring into the United States, we will then have to source in other places. More than likely, we will source in a place like Italy. We have a company there, we have a manufacturing base there. Again, it is because of the mix of our products and it is also because of the tremendous flexibility that these other countries have to offer.

However, Italy is more expensive than the Far East. It is not as expensive as the United States. And we did some calculations to see what effect this would have on our business and we felt that if this particular bill is passed, that we would probably drop about 20 to 30 percent of our units. Maybe we would maintain the same dollar value, but we would certainly drop our units. Units to us means processing, it means the 1,500 people in San Francisco are going to have to be reduced by that 20 to 30 percent.

Granted we are a small company, in the United States, in that way with only 1,500 people as opposed to many of the apparel textile mills, but there are many like us.

By moving our production to the EEC or to the Caribbean Basin, we would then still be not taking care of producing American jobs, mainly because of the intransigence of the textile mills, and, as Mr. Fisher mentioned, the problems that we have in terms of sourcing apparel factories, garment CMT factories.

With restrictive quotas there would also be the problem of specifically our children's wear business. It is a $60 million business and it is produced almost all overseas and we would not be able to produce overseas with the restrictions because they would then take the quota and use it for the higher revenue products, meaning women's wear, men's wear. With that in mind, we would then be in a position where, what do we do? Italy is probably too expensive also. And we would revert to the United States and have to charge 20 to 30 to 40 percent more for our children's wear products.

I really do not think that our customers are going to be willing to stand for that. That is very much like what happened to the auto industry; by restricting the Japanese imports, go try to buy a Japanese car today, and as you all know, they are loaded to the hilt with every kind of extra you can imagine.

We all know that our industry is the most highly regulated and with that in mind, we think that we should very carefully consider what we do. The countries that we deal with are not in any way subsidizing their production to go overseas. We deal primarily with the free trade countries and our largest producer is Hong Kong, they are a free trade country. Singapore is also. Yes, we have production in Taiwan and yes, we have production in China, but they account for about 30 to 35 percent of our entire volume.

Our American jobs in San Francisco are at stake. Our American jobs throughout the country, in our showrooms and sales offices are at stake. We are becoming a retail company and we are opening stores and I feel that those are at stake.

In summary, I would like to request that we do not take any reactionary action with regard to this bill, that we study it carefully and we come up with something that protects jobs on both sides of the fence.

You, Mr. Chairman, and the subcommittee are invited to San Francisco to visit our facility and also to visit our facility in Hong Kong. I think that you would appreciate that.

[The prepared statement follows:]

STATEMENT OF ROGER KASE, PRESIDENT OF RETAIL, ESPRIT, ON BEHALF OF THE AMERICAN FREE TRADE ASSOCIATION [AFTA]

My name is Roger Kase. I am one of the six members of ESPRIT's general management team, and serve as President of the Retail Division of ESPRIT. I appear today on behalf of both ESPRIT and the American Free Trade Association (AFTA), an association of independent import-export companies and retailers in the West Coast.

I am prepared to answer any questions you or the Subcommittee may have, Mr. Chairman, with respect to how H.R. 1562 will affect our businesses and U.S. consumer prices, and, in addition, how textile and apparel operations are actually run in the major exporting countries such as China, Taiwan, Hong Kong, and Korea.

My own experience for the past 13 years has been in the management of the production and merchandising of textiles and wearing apparel on five continents, including the 12 major exporting countries which are the target of H.R. 1562. In each of these countries, I have supervised work in sourcing, contracting, garment costing and manufacturing. A good deal of my work has been in Hong Kong, supervising the development of two factories and 80 subcontractors making sweaters, shirts and pants.

ESPRIT is a California company that was started in a loft in San Francisco 16 years ago by Doug and Susie Tompkins, then in their 20's. Today ESPRIT has 1500 employees in the United States.

ESPRIT's business is entirely in moderate-priced fashion clothing for the average American family. Our gross sales last year were $220 million of which $60 million was in children's wear and $160 million in women's wear. We market through over 2,000 retailers in all 50 states, including every major department store in the United States.

At the outset, I want to stress that we at ESPRIT recognize that, like the textile lobby, we are a special interest group in that 95% of the apparel we sell throughout the United States is manufactured abroad.

There is a basic reason for this. We cannot obtain the same quality goods in the United States at competitive prices. Garments we produce abroad would cost at least 20% more to produce in the United States. We do not believe that American consumer wants to pay 20% more for ESPRIT apparel.

The irony of H.R. 1562 is that, while it is proposed as a measure to save jobs, the jobs it will save are not American. Since the bill does not restrict imports from Canada and the EEC, it would merely encourage the transfer of jobs from the 12 major exporting countries—most of them developing nations in the Pacific Basin—to competitive, unrestricted producers—i.e. the developed nations of the EEC. Similarly, the bill's preferential treatment of the Caribbean Basin would encourage a minor movement of jobs into that region. Neither transfer would increase or protect American jobs.

There are many arguments against H.R. 1562, but most of them have been made far more astutely by other witnesses. We would therefore like to limit our testimony to four points which we think are crucial.

1. THE IMPACT OF H.R. 1562 ON CONSUMER PRICES

If H.R. 1562 is passed, we predict that clothing prices of various items will jump 20%-50%. According to the Reagan Administration, consumers will pay $14 billion more next year for apparel. We know that children's clothing and some other basic items will be in limited supply. Let me explain why.

By imposing severely reduced textile and apparel quotas on some nations but not on others, H.R. 1562 will globally restrict and redirect the manufacture of apparel for the world's biggest market—the United States.

By the way, recent United States Customs regulations (April 4, 1985) should eliminate questionable manipulations of quota in that they charge quota consumption to the country in which the last substantial transformation of the garment took place, regardless of the nominal exporting nation.

I have attached as Exhibit A ESPRIT's cost record for a typical poly/cotton tee shirt imported from Hong Kong. It shows that this basic item costs $5.03. Our wholesale price is $10.00 and suggested retail is $20.00. Our domestic sourcing department has costed this tee shirt at $6.10 for U.S. production. This would result in a retail price of $24.00 which is 25% higher than the same shirt produced in Hong Kong.

Please note also that while Hong Kong manufacturer's price ("FOB/PC") is $2.92, ESPRIT's average cost landed in San Francisco is $5.03. The difference includes $1.32 in quota and tariff charges (26% of our total cost) to protect domestic industry.

In another example, a linen skirt is priced today at $36.00. If quotas limited the availability of this style from our source in Hong Kong, it would sell for $47.00 (30% more) since linen is not produced in the United States and would be imported from Italy at higher cost.

In the case of a Shetland sweater, we could not move production to the United States since the machines necessary to manufacture this kind of "fully-fashioned" knitting do not exist in this country. Quota rollbacks for the major exporting nations would again force us to import from the EEC, where recent offers are 50% higher than our current prices.

I have outlined the fundamental price increases which would result from H.R. 1562 in today's market. But there is more.

By removing the competition of low-cost imports, this bill would allow domestic manufacturing prices, and therefore, consumer prices, to rise much higher. Furthermore, by limiting the total availability of certain products (e.g. silk, linen, raime, embroidery) which are not produced at all in the United States, H.R. 1562 would inevitably drive up prices on the remaining supply. There is nothing like competition to protect the consumer!

Finally, the imposition of quotas has always driven production from less expensive to more expensive goods. We have seen this recently with Japanese automobile exports to the United States where supplies of inexpensive models disappeared and expensive options came packaged with every deal.

Since textile and apparel quotas limit imports by the number of yards or units imported, exporters will shift their production to those items which generate the most sales per unit, such as women's fashion. Production of basic garments, sleepwear and childrens' clothing—all of which are relatively low priced—would be left to the United States, where consumers would pay the price for restricted supply and tremendously greater costs.

For all these reasons we predict that apparel prices may increase an average of 33⅓%!

2. THE DISCRIMINATORY NATURE OF H.R. 1562

While we and the West Coast retail industry oppose H.R. 1562 for the same reasons that were so powerfully stated recently by four Cabinet Secretaries and the Acting Special Trade Representatives in their letter to Congress dated June 19, 1985, we think there is one argument the Administration has not fully addressed. The bill clearly discriminates against the Pacific Basin countries.

In their recent letter to Secretary Baker in his capacity as Chairman Pro Tem of the Economic Policy Council over 100 congressional proponents of H.R, 1562 stated that the bill would: "mandate actions very similar to those taken unilaterally by the European Economic Community (EEC) several years ago."

The congressman do *not* say, however, that H.R. 1562, by omitting the EEC, Canada, Mexico and Caribbean countries from the bill's restrictions, fails to cover the major source of import increases.

Note the following comparison of the increases in imports in 1984 by the five largest Pacific Basin countries as against the five largest EEC or other countries which H.R. 1562 blithely accepts.

"BIG FIVE" PACIFIC BASIN TARGET COUNTRIES

Taiwan 12½ percent increase Korea 12 percent; Hong Kong 8 percent; China 23 percent; Japan 10 percent; and average (weighted) 11½ percent increase.

"BIG FIVE" EEC NON-H.R. 1562

Canada 85 percent increase; Italy 82½ percent; Germany 74 percent; U.K. 55 percent; Mexico 46 percent; and average (weighted) 42 percent increase.

Over one-half of the import increases during 1983 and 1984 came from the EEC or countries other than those which H.R. 1562 seeks to restrict.

Putting these figures into square yard equivalents (SYEs), while the "Big Five" Pacific Basin countries' imports increased by 592 million SYEs in 1984, an 11% increase, *EEC* 1984 imports increased 624 million SYEs, from 878 million to 1.502 billion, an increase of 58%. And it punished the wrong competitors to U.S. domestic production—the Pacific Basin rather than the EEC.

3. THE ENORMOUS IMPACT OF THE QUOTA AUCTIONING CONCEPT ON SMALL BUSINESS

The United States apparel business is a classic example of what is best in the American free-enterprise economy. Literally anyone with ingenuity, daring and creativity can enter the business as did ESPRIT's founders 16 years ago.

No experience is needed. No heavy capital investment is required. There are literally tens of thousands of small American companies competing for consumer taste and consumer satisfaction.

If imports are rolled back and importers required to both obtain specific licenses and bid for quotas a year in advance, two results are inevitable and immediate.

First, no entry-level business can cope with the governmental and legal complexities involved. Second, no small business can successfully compete for the reduced quotas. It is inevitable that only the largest U.S. companies will be able to successfully compete.

The result is the forced limitation of business to the very largest companies and the accompanying removal from competition of the very best of our young entrepreneurs who have hitherto competed with only their daring, innovation and hard word. This alone will contribute to price increases.

I am sure Mr. Chairman, that many sponsors of this bill are proven champions of small business. I trust they would agree that the forced reduction of the number of small businesses who can successfully compete in the apparel field is clearly bad for American jobs, business and ultimately the consumer.

4. THE NEED FOR CAREFUL ANALYSIS BEFORE TAKING PRECIPITOUS ACTION

We have seen one great congressional venture in protectionism in the 20th Century, the disastrous Smoot Hawley Act of 1930. The economic and the political effects of Smoot Hawley were devastating. In the two years, U.S. experts dropped 73% from their previous four year average; agricultural exports dropped by 67%. Unemployment reached the staggering figure of 20%! Senior conservative Republicans, Finance Committee Chairman Smoot of Utah and Republican Ways and Means Committee Chairman Hawley, as well as the President who signed the bill into law, were turned out of office two years later.

We have had an instructive example of the results of protectionism in one now-defunct sector of the apparel business. The once-thriving U.S. embroidery and lace industries first received protection in 1930 by a duty rate which was double that on finished garments. The industry was so well protected that it passed out of existence in the 1950s. (Starting in 1980, the Department of Commerce has initiated a seven-year roll back to tariff rates on non-ornamented garments. Embroidery and lace have passed out of fashion, so this particular governmental protectionist action has become out-of-date.

There are some basic arguments for the bill which should be rebutted.

A. THE "SCARE" RHETORIC

The enormous momentum this bill has built up in the past several months is admittedly in response to its proponents argument that without strong action, the U.S. domestic apparel industry may be literally wiped out.

In their letter to Secretary Baker of June 28, the Congressional proponents put it bluntly: "Before long we will not have a domestic industry . . ."

This argument rests primarily on the statistics for 1983 and the first half of 1984. During that eighteen month period *both* domestic manufacturing and imports rose sharply. In 1983, domestic production was up 15.2%; imports 25%. Total apparel imports reached 22% of total; U.S. consumption by year end 1984.

Had this growth continued, domestic producers might be in deep trouble in the future. But it did not. Two things happened in mid-1984.

First, retailers, contemplating continuing growth, over bought and became seriously overstocked. Christmas 1984 was not up to expectations.

Second, the domestic industry reacted immediately to cut production. The import business requires four to six months advance commitment of purchase orders; imports also dropped substantially after a four to six month delay.

In the fourth quarter of 1984, the rate of increase in imports dropped from roughly 42% to 5%.

By the end of the first quarter of 1985, imports were actually decreasing by a rate of 3%, a trend which by April 30, a month later, reached a 9% rate. Even with a substantial increase in May, the first five months of 1985 were still slightly less than the first five months of 1984.

The May surge in imports reflects buying for next fall. Last year, no equivalent May surge occurred because the first four months of 1984 have been so strong that fall buying was pushed back to June and July. This is typical of this volatile industry; no two years are alike. Statistical comparisons are valuable only when made for three or four year periods. We suggest therefore, that this Subcommittee withhold any conclusions on ultimate comparisons until at least November, given the shorter lead time for domestic orders.

Presumably the Administration's actions in imposing new quotas (over 300 by the end of 1984), and in imposing country-of-origin restrictions as well, played a part in this reversal from increase to decrease in textile and apparel imports. The point is that by the spring of 1985, a number of Congressmen were led to endorse H.R. 1562 when the import increase triggering their concerns had already *reversed*!

B. THE 6 PERCENT ANNUAL IMPORT INCREASE LIMIT IMPOSED BY MFA

We have heard from several members of Congress that they decided to co-sponsor H.R. 1562 in the belief that the recent growth of imports has exceeded the rate authorized under the MFA. I would like to point out that, contrary to many misrepresentations, the MFA establishes a 6% minimum annual growth of exports from developing nations, with specific limits negotiated country by country.

For example, Singapore had a 36% increase in textile exports in 1983, from 103 million SYEs to 140 million SYEs. Their allowable exports under MFA, however, were 314 million SYEs. Singapore had *not* been exporting their total MFA-permitting goods; their increase ws in compliance with MFA.

The so-called "sharp increase" in Pacific Basin imports in the 1983-84 period stemmed in large part from the fact that these nations were previously well below their quota in many areas. In Hong Kong, for example, the only exports which met quotas historically were woolen goods, cotton jackets and sweaters, and occasionally women's pants. What now appear as impressive import increases are in silks, linen and ramie, fabrics which are not covered by the MFA and which are not produced in the United States.

C. THE JAPANESE "ENEMY"

We appreciate that there is currently a deep feeling here against Japanese competition, but it should be noted that Japanese imports are not a major factor in the apparel import picture; Japanese imports constitute only 7% of total textile and apparel imports; Japanese apparel constitutes only 1½% of U.S. domestic consumption. This bill should not be supported under the mistaken assumption that it is a way to punish Japanese export excesses.

CONCLUSION

In conclusion, I am sure the authors and co-sponsors of this legislation did not intend to: increase consumer prices to ruinously high levels; eliminate over 60,000 retail jobs; stifle retail competition; drive small businesses into bankruptcy; discriminate against Third World countries; and generates retaliation against U.S. exporters.

Unfortunately, that is what the result of the Textile and Apparel Trade Enforcement Act of 1985 will be.

We have indications from our customers that as the American people learn about the effects of this legislation they will ask you, their elected representatives, to reject it. I hope that as you learn what it truly will produce you will share their view.

Thank you.

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STYLE - 9160 PLACKET PULLOVER
KNIT - NOT ORNAMENTED LOW DUTY
QUOTA CAT 639 - SYNTHETIC KNIT TOPS

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SEA FREIGHT @ 0.29		$	0.12
AGENT COM. 8.50%		$	0.24
MISC. 1.00%		$	0.02
AIR LANDED		$	5.20
SEA LANDED		$	4.62
30.00% SEA/AIR AVG		$	5.0260
SELLING PRICE (MARK UP =	1.70	$	8.54
	1.90	$	9.54
	2.05	$	10.30

Chairman Gibbons. Thank you.

Mr. Jenkins. I would be delighted some time to come. I just came this morning from Russell Corp. down in Alabama. It is an integrated company that makes competitive garments. You are very familiar with them, I am sure.

Mr. Kase. Yes, I am, Mr. Jenkins. In fact, we have been trying to buy from them, but they refuse to produce a 90-percent cotton product. They want to go toward a 50-percent cotton–50-percent polyester product.

Mr. Jenkins. You are trying to get 90-percent cotton?

Mr. Kase. A 90-percent cotton content, yes.

Mr. Jenkins. And they will not talk with you about it?

Mr. Kase. They will talk to us about it, but the minimums are unbelivable.

Mr. Fisher. We have the same problem.

Mr. Jenkins. You know the thing that disturbs me is sometimes I think on both sides we lose some perspective. I am very familiar with your company and the product. I am very familiar with yours because I have two daughters, and you are located in the Atlanta area. Half of your people are textile people that are buying in your stores in the Atlanta area. I am amazed because you do sell to the middle class. I am very familiar that you are there in the shopping centers in the metro Atlanta area.

And I can tell you that a good, sizable percentage of the customers are middle class. I recognize the statement you say that it is in your interest to do something to maintain the domestic industry.

Mr. Fisher. We have 70 percent that is domestic in our sales.

Mr. Jenkins. I want to question you about that just 1 minute because sometimes figures are deceptive. You say you are buying 70 percent domestically. You order from a company here. But you do not really know, I am assuming, whether or not that company does a lot of offshore production of those garments. Is that 70 percent of all produced in this country?

Mr. Fisher. The 70 percent that we have, 25 percent of our total sales are Levi Strauss products. You just heard testimony that they are made in the United States. Maybe 15 percent of our sales are in sweat clothes that are made by the H.D. Lee Co., the V.F. Corp., who bought Bassett-Walker. And Bassett-Walker is similar to Russell in manufacturing that particular product.

So you add those two together, we buy corduroy textiles and have them made under 807 for ourselves, and we buy all the corduroy textiles here in the United States. So that totals out to approximately 70 percent of what we sell.

Mr. Jenkins. But you are including 807's in your 70 percent.

Mr. Fisher. I am, but all the textiles are bought here in this country.

Mr. Jenkins. Oh, I understand that.

Mr. Fisher. That includes the denim that we buy here for 807 and the corduroy.

Mr. Jenkins. A big denim plant in my district just closed down 1 year ago, so I am very familiar with it.

Mr. Fisher. But we are becoming a very big factory in both denim and in corduroy, and those piece goods are manufactured in this country.

Mr. JENKINS. I know the market there and particularly in my area. I know how many people are truly dependent upon the domestic textile industry in the particular region that I am speaking of, which is north Atlanta and that area.

Mr. FISHER. Would they be willing to pay a lot more for their product?

Mr. JENKINS. I would say this, that they will have to buy whatever they buy with their unemployment checks, and that does not last long. Sometimes I think that the Wallmart stores, Sam Walden out there has a good idea. He believes that you need to save the basic industries if he and all other retailers are to survive. Let me go to another question because I know we are not going to get anywhere with this.

I understand your concern in the Northwest. You all cannot sell any lumber now. We have quota bills up here now from your entire delegation wanting us to place quotas on lumber because you cannot compete. Are you aware of that?

Mr. SOBOL. I am aware of that.

Mr. JENKINS. You think that is a terrible mistake, do you not?

Mr. SOBOL. I am not a timber expert, but I know a little bit about sportswear.

Mr. JENKINS. I just want to go to another product and say that Jim Weaver and the entire delegation in Washington and Oregon are saying that they cannot compete with Canadian lumber because they are selling it $10 a thousand, if I remember correctly.

Mr. SOBOL. Right. There is a problem definitely. That is, I suppose, why we have called ourselves the Fair Trade Alliance; we have issues that must be resolved.

Mr. JENKINS. Is that one that must be resolved on a fair trade basis maybe with quotas?

Mr. SOBOL. We believe that this particular issue will not be resolved properly with the bill, but we believe that definitely we have some work to do in this area. And there are other industries other than timber that also dominate the Northwest, and those industries are very concerned about what is happening here today.

Mr. JENKINS. I just wanted to bring up that other parts of the country have some similar problems, and your section is very definitely in one of those. Thank you, Mr. Chairman.

Chairman GIBBONS. All right. Mr. Campbell.

Mr. CAMPBELL. Thank you, Mr. Chairman. Mr. Chairman, awhile ago, when we had our colleague from Texas, Mr. Armey, testify, I should have said something to him. I happen to be a firm believer in this, when he talked about the wealth of nations and Adam Smith and that sort of thing. To my knowledge, there are only four ways to produce wealth. Retail is not one of them. It is fishing, farming, mining, and manufacturing.

If you do not have that you do not produce wealth. Everybody else services wealth from that standpoint. You sat here through his testimony, and so you service wealth in what you do. And I think it is nice to keep that sort of thing in perspective.

I would ask, if I might, Mr. Kase and Mr. Sobol, where do you market what you sell?

Mr. KASE. We market throughout the world.

Mr. **Campbell**. How much do you market throughout the world as opposed to the United States?

Mr. **Kase**. The United States is about one-third of what we market through the world.

Mr. **Campbell**. About one-third.

Mr. **Sobol**. We are national only.

Mr. **Campbell**. National only.

Mr. **Sobol**. We have licensees in Canada and Australia and Japan.

Mr. **Campbell**. But you do not manufacture anything here.

Mr. **Sobol**. We have a shoe license in New Hampshire, I am proud to say.

Mr. **Campbell**. I am glad you are proud of it. So you are servicing the marketplace and the marketplace, of course, is the United States. Do you think the United States could survive without manufacturing?

Mr. **Sobol**. I am not an expert in that area. I do not think so.

Mr. **Campbell**. Well, I mean, manufacturing steel and automobiles.

Mr. **Fisher**. I think any response that we would have would be purely speculative. As Mr. Sobol says, we are not experts.

Mr. **Campbell**. We have to have some creation of wealth ability in the country. Either we are going to farm or we are going to fish or we are going to manufacture or we are going to mine. Now, mining is in a little trouble. Fishing is having a little trouble. Our farming cannot export anymore because we cannot seem to get into the export markets. In many instances, it is blocked. They will not let us in, and our manufacturing is having trouble because they will not let us export there. And we let everybody come in here.

So my question to you would be—and we are dealing in a little theory here. My question to you is: If we cannot create wealth and we cannot export and we are just going to deal internally, how are you going to market in this country? Who are you going to sell to if we do not do something to keep our manufacturing on a level playing field?

I do not want to hurt you on imports. That is not my purpose. I have been to I do not know how many different countries. I have looked at their laws. I see what they do. I watch countries that we try to export automobiles to say you can export all you want to, and we have no policy except they leave them sitting on the docks because they cannot quite get them inspected for 6 months. I go into other countries that say you can send all the tobacco products you would like to; we will buy all that you can send over here and sell. But they only give you four outlets to sell tobacco in the whole country of 30 million people or something like that.

And the point is that in the industry that we are talking about, which is textiles and apparel, is blocked in other markets. Other people subsidize their products. They break this marketplace, and they try to monopolize it, and I am not going to try to belabor this point, but I can cite product after product where they literally have captured the market and watched that price go up. So that is a problem for us.

And I guess what I would say to you is or ask you: if you had an industry that was employing 2 million people and it was in decline because of trade problems in the world, would you watch it go or would you try to do something about it?

Mr. **Fisher**. Well, it is my opinion that progress is changing this country.

Mr. **Campbell**. I beg your pardon?

Mr. **Fisher**. Progress is changing this country.

Mr. **Campbell**. What is progress?

Mr. **Fisher**. Progress is different ways of doing things. It is the ability that this country might be turning into a country more of service industries or of high-tech industries, and the areas that we can export, like high-tech information, the information sciences where we are far ahead of any other country; maybe we have to use production sharing like an 807 program.

Mr. **Campbell**. I will not argue with you about that, that there are areas that you can work on.

Mr. **Fisher**. But things change, and if we get stagnated and try to protect every industry that has a problem in this country, we have a major problem for ourselves. I do not think we can exist that way.

Mr. **Campbell**. I do not think we can exist trying to protect everybody in the world, but do you think that the United States should sit by if other nations block our products from going into their countries in the fields that you are talking about, block our products or subsidize products and sell below their cost into our marketplace to break it.

Do you think that the country should sit by, bearing in mind that we deal with controlled societies where you have plants, in some instances, when we are not a controlled society. Should we sit by and let it happen or does the Government have a duty to deal with Government policies from other areas to try to keep the field anywhere near level?

Mr. **Fisher**. Congressman Campbell, I would like to set the record straight with regard to controlled societies. Our factories are in Hong Kong and it is a free port, No. 1. No. 2, I think we really believe—that is why we have the American——

Mr. **Campbell**. Hong Kong is probably the only country in the world that you can say is anywhere approaching a free situation, the only one, and they do not buy a hell of a lot from us.

Mr. **Fisher**. They buy a lot of foodstuffs.

Mr. **Campbell**. They buy a lot of foodstuffs.

Mr. **Fisher**. At least we agree on one thing. But, more importantly, I think the challenge is—believe me, the apparel workers in America are our customers. We are not interested in putting them out of work. What we are interested in is a competitive, viable atmosphere that we all can live in. And this bill restricts it to such a degree that it is going to force us to be in a position where we are going to have to, as a company that is extremely flexible, as a company that has to deal with the fashions of the time, the change every season, has to deal with the market disruptions that happen just internally, much less without the problems of international trade, with all these in mind, we have to be in a position where we can move and not pass along these prices to our customers who are apparel workers.

Mr. **Campbell**. Awhile ago in your testimony you said that if we pass this bill you might move to Italy or somewhere like that. We have a little bit different relationship with the EC and all; they let our products in.

Mr. **Fisher**. Italy does not.

Mr. **Campbell**. Italy is one that does not, but not in all the cases. They do let a lot of our products in.

Mr. **Fisher**. They do not let denim in; that is for sure.

Mr. **Campbell**. But they let a lot of our products into the EC, and in this legislation, we treat it a little differently.

Mr. **Fisher**. What about France? France is very restrictive.

Mr. **Campbell**. France is very restrictive on a lot of things.

Mr. **Fisher**. And the Benelux countries are also restrictive.

Mr. **Campbell**. They are restrictive on things. Is it not amazing that all these countries over there are restrictive and they protect their people and they keep their market and yet you are over there buying from them and telling us we cannot do it.

Chairman **Gibbons**. That is why they have such a high unemployment rate and a high cost of living and a stagnating economy.

Mr. **Fisher**. I think that our industry is the most restrictive industry that I know of in the United States today. We would be just pushing it farther in that direction.

Mr. **Jenkins**. What do you suggest we do, just take off all import quotas and just forget about the pending negotiations?

Mr. **Fisher**. I have not gotten into that. I could not give you an answer as to what we should do. I think that we ought to let the negotiators for the administration work on the MFA agreement that comes up next June. They are starting to work on it right now. I would not tie their hands. I would let them come up with the conclusion that if you did not like their conclusion at the end of the MFA negotiations you should bring the bill back.

Mr. **Jenkins**. I could not pass this up now.

Mr. **Fisher**. I would like to know where you got that.

Mr. **Jenkins**. That came from Glamour magazine, one of your advertisements. I have seen your ad for ramie cotton yarn for these sweaters selling for $32 apiece. Seriously, the reason I am assuming that you are adding the cotton is to get around the quota situation, cotton and ramie. Ramie is not included in the restricted—is that the reason you have a 50-50 split there?

Mr. **Fisher**. I would imagine that it was. I am not too sure what the costing was of the product, whether that had any bearing on it or not. But all of these companies and all of us that are importing are importing according to the rules. And if the rules are set that way with the ramie, you know, that would be one of the reasons that we might do that.

Mr. **Jenkins**. I wanted to explain why there is a lot of concern from the silk and the ramie people. This was included within the provisions of this bill simply because the intent is being circumvented. I am not blaming you. I understand what you are doing or your sales people or purchasing people are doing to circumvent the intent of the quotas that were in existence.

Lord only know, I wish I did not have the problem in my area. You know, you speak of high tech, going to high tech and that sort of thing. Whereas you only used to take knowledge of basically high tech for manufacturing, using the biggest part of it, 65 percent of it.

Mr. FISHER. Well, I mean, there is an awful lot used in our company for distribution, for capturing point of sale. They mentioned we sell 36 million units a year. Every one of those units is captured on our computers.

Mr. JENKINS. But it takes one of your clerks just as long to sell an imported item as it does a domestic item.

Mr. FISHER. That is correct.

Mr. CAMPBELL. But that is a good point that Mr. Jenkins was just making, and that is true in the high tech field. I mean, the majority of what we are selling is going into manufacturing. That is where they are servicing their marketplace in high tech in this country.

And, like I said, I did not mean to awhile ago try to beat up on you or anything. We are concerned about an industry. We see it in trouble. We see the manufacturing jobs in trouble; we have seen too many towns shut down where people could not sell anything that you bring in because nobody can buy it. And opening a store there is not going to cause people to buy things.

You have to have some basic generator of wealth that the farming community can buy or the manufacturing community. A total retail community is not going to live off of itself. And somehow, some way we have to deal with it, and that is a problem for us that we see. That really was my reason for coming at you just a little bit.

Mr. SOBOL. Congress, the concern I have—first of all, I share your concerns. A concern I have is that we will, at the risk of damaging other American industries, as we are an American industry, support another American industry, and that does not seem like good, common sense to me. It seems like we are doing damage to ourselves as a nation and other parts of the Nation in order to support an industry. And all I am asking for is the opportunity to help solve this problem in another way.

I do not have a lot of answers, but I have a good nose for what I do not think we ought to be doing, and I do not think that this bill is the answer.

Mr. CAMPBELL. Let me tell you, we had 34 drafts of this legislation. I cannot tell you how harsh it was starting out. And the idea essentially was to go to the MFA, which does mention a 6-percent growth level, to apply what it would have been had it been the 6-percent growth level, to exclude the European Community, to exclude Canada, those that we have a generally open trade policy with, and to deal with those where we have had problems with abuse, and to set a 6-percent growth level for all the developing countries out there, the little ones, and 1-percent growth levels for the "developed countries," the big five, the People's Republic of China, Korea, Taiwan that do not let our products in.

And it was not to shut down, not to stop, not to cut in half what they are doing, but to put some order in the growth so that this marketplace could grow here. And if that approach is wrong from the standpoint of an importer, what other approach could we take to it? We are not talking about throwing up big tariffs on it, pricing it out. We are talking about allowing orderly growth.

Mr. **Sobol**. It is not just an importer that we are talking about. I am speaking for an entire region's economy as well. It is not just one small group in the Northwest. There must be other ways to solve the problem. There must be. And I do not know that this bill is going to provide us entry into world markets, especially Japanese markets. I do not see how this bill makes a difference, and I think that that is a major issue.

And another major issue is our deficit and another major issue is our dollar. And this bill does not make a difference in those areas as well.

Mr. **Campbell**. Listen, I can appreciate from one standpoint this is a microissue and you speak of macroissues. And the same is true with timber. It may impact your region. It happens to impact mine, too. We have a lot of timber down our way. But the fact is that the Japanese will let logs go over there but not finished wood. The fact is the Canadians are clearcutting now tyring to subsidize employment, keep people working, and shipping it in here to subsidize. They are busting us and you all are raising Cain with us saying do something about it. So the problem is there. It just applies here to textiles and apparel and there to lumber or to timber.

I just really wonder at the problem. How would you focus on the problem? Would you let it go or would you try to focus on it?

Mr. **Fisher**. I think one of the major problems that we have come up against here is that you roll it back to 1980, and there have been a lot of relationships that have been developed over that period of time; 1980 is a long time ago, and it has major impacts on certain countries like China, Korea, Taiwan, and so forth.

I think that is one of the problems with what you have done. I think the other thing, it was my understanding that the MFA agreement allowed for a minimum of 6-percent increases, not a maximum of 6-percent increases. And that is what keeps coming across all the time. Everything I read that comes out of this bill says it was a maximum of 6 percent, and I do not believe that is the case.

Mr. **Campbell**. I have never said it was a maximum.

Mr. **Fisher**. Everything I read says that.

Mr. **Campbell**. It mentions a 6-percent growth level in MFA. That is the only percent.

Mr. **Fisher**. But that was a minimum.

Mr. **Campbell**. I do not want to belabor it. I do appreciate your testimony. It was good testimony and I learned some things from it.

Mr. **Fisher**. I think we would all be very happy to help you in any way we possibly could in solving our problems.

Mr. **Jenkins**. By selling more domestic products it would help us greatly.

Mr. **Sobol**. Thank you very much.

Chairman **Gibbons**. Thank you. Without objection, I would like to put a tabulation in the record here that shows the USTR estimate of what impacts this would have on different countries.

[The table follows:]

PERCENT REDUCTION TEXTILE IMPORTS UNDER H.R. 1562

	AAEI estimate	Admin. estimate
Taiwan	45.30	33.1
Korea	33.36	33.1
Hong Kong	12.41	14.3
PRC	56.66	59.6
Japan	16.63	25.5
Pakistan	23.99	43.2
Indonesia	72.26	89.1
India	4.36	26.0
Philippines	9.88	14.7
Thailand	45.76	70.2
Brazil	58.15	88.9
Singapore	10.00	8.1

Chairman **Gibbons**. Without objection, we will now close the meeting today. Thank you very much.

[Whereupon, at 7:24 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

Ad Hoc Textile & Trade Legislation Committee,
Honolulu, HI, July 12, 1985.

Hon. Sam M. Gibbons,
Chairman, Subcommittee on Trade, Committee of Ways and Means, Longworth House Office Building, Washington, DC.

Dear Mr. Gibbons: The Ad Hoc Textile and Trade Legislation Committee is an informal association of leading garment manufacturers, and the formal garment manufacturing group (Hawaii Fashion Guild—representing some sixty firms) in the State of Hawaii, formed with the specific purpose of opposing the Trade and Apparel Enforcement Act of 1985 (S680 and HR 1562).

We have set forth our position herewith, and would like to further state that this position has received the endorsement of it by most of the state's business associations to include the Hawaii State Chamber of Commerce, Economic Development Corporation of Hawaii, District Export Council, Hawaii Business Roundtable, Hawaii Visitors Bureau, National Federation of Independent Business (Hawaii chapter), Small Business Hawaii. It is our understanding that the Governor of the State of Hawaii will be joining in opposition to the passage of this bill in the next day or so.

The primary provisons of these bills are:

(A) To a greater or lesser degree, unilaterally roll back the importation of textile and apparel imports from Asian countries to 1980 levels with various percentages of growth of 1% or more to 1984 levels, while giving Canada, the EEC, Mexico, and the Caribbean countries free access to the American market. This rollback will result in reductions of textile and apparel imports from affected countries of between 20–30%, in some cases 60–70%, from existing levels.

(B) Provides for an import licensing scheme that would control all imports of textiles and apparel at the port of entry by the Department of Commerce, as opposed to the worldwide systems which have been in place for thirty years. The worldwide systems currently in place establish export control as per multi- or bi-lateral agreements (e.g., the General Agreement on Tariffs and Trade).

The results of the proposed legislation would be as follows:

(A) Consumers of textile and apparel products in the U.S., primarily in the lower income categories, would be faced with increases in prices of at least 20%. The ultimate impact on the American consumer will be dramatically adverse.

(B) The framework of the free world's international trade agreement system will be effectively dismantled, resulting in retaliation by target countries against U.S. primary exports (agriculture, electronics, etc.). The proposed legislation contains specific bias against Pacific Rim countries, giving favored treatment to Canada, EEC, and the Caribbean.

(C) The import licensing scheme, which is strongly opposed by the U.S. Department of Commerce as unworkable, would unquestionably cause the complete disruption of the import delivery system and the elimination of a great many import companies almost overnight.

What will be the effects of the proposed legislation on the economy of Hawaii?

(A) The mechanics of the licensing scheme, alone, will virtually shut down completely the textiles and apparel industry in the State, inasmuch as 85–90% of our textiles come from Pacific Rim countries. The garment industry employs 2,950 workers and has an annual gross product of approximately $80,000,000.

(B) The Hawaii garment manufacturing industry has depended, almost from inception, on imported textiles because of the quality, accommodation, and prices which have made Hawaiian wear affordable. The proposed quota rollback will effectively and dramtically reduce the total amount of textiles needed to maintain current production.

(C) Most of the major apparel manufacturers in Hawaii import apparel from the Orient that cannot be manufactured here, to the extent of 20–30% of total gross sales. Thse imported products are primarily targeted for re-export to the mainland, and both local and mainland sales would be adversely and severely affected by the proposed legislation.

(D) The specific anti-Asian bias of the proposed legislation will have a drmatically adverse impact on our tourism industry, with regard to visitors from the Orient.

It is our understanding that this legislation is responding to the following conditions in the domestic industry:

(A) Since 1981 textile/apparel imports have increased at an average of 19% per year. 1984 imports increased 32% over 1983.

(B) Since 1980, 300,000 workers have been displaced (fiber, fabric and apparel workers).

(C) In certain categories, market penetration of some imports has been up to 50% of domestic production.

We believe that the following facts must be carefully considered in responding to this situation:

(A) Two million (2,000,000) workers in the textile and apparel industry are still employed—thus, in 5 years, the reduction in the number of jobs has been 13%.

(B) The loss of jobs which has already occurred in the domestic industry is not due entirely to imports. This reduction is, in part, the result of:

1. increased automation
2. a reduction in U.S. textile and apparel exports to foreign markets, due to the strength of the U.S. dollar against foreign currencies.

(C) The proposed legislation will only exacerbate job displacement in this industry and, therefore, throughout the country. Specifically, it would result in the elimination of most of the jobs in the Hawaiian apparel industry.

We believe that international trade agreements such as the General Agreement on Tariffs and Trade (GATT) and specifically the Multi-FIber Arrangement (MFA) mandate the control of textiles and apparel products among some 31 free world countries. The negotiators for MFA will convene again in July 1986. If they exist, problems involving the trade of textiles and apparel products in international markets should be addressed and solved in an orderly manner in this international forum, which was established just for this purpose.

We do not believe unilateral legislation in the field of international trade agreements is an informed or reasonable approach. Whereas the U.S. Congress can, and must, insist on fair treatment of all its citizens, it should be through clear signals to the nation's trade negotiators. As noted, aside from this general mandate, the proposed legislation will protect the interests of a few in the textile industry at the expense of the nation's consumers and the import industry. Finally, the U.S. must maintain its leadership role in promoting orderly international trade agreements.

Very truly yours,

William G. Foster.

Alabama Textile Manufacturers Association, Inc.,
Montgomery, AL, April 8, 1985.

Trade Subcommittee,
Ways and Means Committee,
U.S. House of Representatives, Washington, DC.

Dear Congressmen: I am sorry I could not be present at the Sylacauga, Alabama, Public Forum concerning the texile industry, not only in Alabama but throughout the Nation, due to a previous commitment to the American Textile Manufacturers Institute.

The impact of imports on the textile industry has been devastating to the Alabama industrial community with the closing of several plants across the state. We have lost more than five thousand jobs in recent months with the import situation being identified as a major cause in every case.

It is estimated that our government's policy on textile and apparel imports will cost industry over two hundred thousand jobs this year if there is not a significant change. It is difficult to understand the justification for costing thousands of Americans jobs in a vital industry in order to provide additional jobs in a foreign country.

Now, I would like to address my personal story on the effect of imports to my Company and my job. I was formerly General Manager of the Crompton Plant in Leesburg, Alabama, which employed 481 associates. We were the last producer of Velveteen in United States and also manufactured corduroy.

In October of 1984 Crompton was forced to close the doors on its three remaining plants (there were six plants in 1981) after operating continuously for 178 years; the oldest textile company in America. The plant in Leesburg, Alabama, is one of the newest and most modern plants in the United States, having been built and completed in 1974. Also, the operating costs were a model to the industry.

Crompton competed with imports from Japan and Italy for years but when the Chinese Velveteen hit the U.S. market, the market was destroyed for Crompton. The very next day after Crompton closed the Japanese raised the price of Velveteen sold in this country $1.00 a yard or twenty-five per cent.

Leesburg, Alabama, and Cherokee County have been devastated by the loss of 481 jobs in a county in which this plant was the largest single employer and represented about twenty-five per cent of the industrial labor market. At this time, six months later, it is estimated by the Labor Department that 420 of the 481 employees are still unemployed. Since the Federal Supplemental Compensation was not funded after March 31, even the Unemployment Compensation for these 420 associates will run out and the financial impact on local merchants will be tremendous. Cherokee County's unemployment is now at the eighteen per cent level.

In a shrinking industry, where nearly every company has already closed one or more plants, it is very difficult to find a job in the textile field. I studied textiles at Clemson University, have worked for 29 years in the industry, am only fifty-one years of age, and anxious to work for fourteen more years and cannot find employment since nearly every company already has displaced personnel.

This is only one example of what is happening across the textile industry more and more frequently. Will the textile industry be offered as a sacrificial lamb to the international "free trade" movement or will "fair trade" be imposed as we are so earnestly pleading.

Thank you for the consideration of the above facts.

Very respectfully,

DAVID H. SEAGRAVES,
President.

STATE OF ALABAMA TEXTILE/APPAREL INDUSTRY

The textile/apparel industry in Alabama employs almost one-third of the manufacturing workforce in the state. There are 90,900 today compared with 99,200 one year ago. During the past year, 8,300 jobs have been lost in alabama primarily due to imports. Five textile plants have completely closed since October, six during the past year. In many communities, textile employment is the only or primary industrial employer in the town.

Please note that the textile/apparel industry employs 37% blacks in Alabama.

We have a textile or an apparel plant located in all 67 counties in Alabama with an annual payroll of over one billion dollars. We are the largest industrial employer in our State.

Textile manufacturers in Alabama contribute millions of tax dollars vitally needed to keep state programs in operation as well as thousands of dollars annually to scholarships, colleges and universities, technical schools and other support in the field of education.

Other industries in our state and nation have already lost the industrial base such as we have seen happen in leather, shoes, small appliances, television sets, stereos, radios, and more. On the endangered species lists today are steel, automobiles, textiles, and apparels.

Free trade is not an actuality, but a preception. It appears that it is a perception being used to delude the American people, and that declusion is on the brink of destroying the industrial base of America. If this trend continues, the ability of this nation to provide for its security will be eliminated. America today stands in terrible danger unless we reverse this trend.

The textile/apparel industry is not asking our government to depart from the helping hand policies that it continues to give to impoverished and underdeveloped countries, but rather, the U.S. textile/apparel industry wants to be given the same treatment by our government as they are giving these underprivileged countries. The textile/apparel industry in Alabama is not against "free trade," but ask for "fair trade" in order to continue the very existence of the industry.

Speaking on behalf of the textile/apparel industry in Alabama, we urge your support for quick congressional approval of legislation which would give American manufacturers and their employees a fair share of our own market. The Textile and Apparel Enforcement Act of 1985 makes it law that fair trade in textiles means that all textile producers, foreign and domestic, equitably share the U.S. market by cutting back imports to where they would have been if the government had enforced its own textile program.

STATEMENT OF NICK P. PETROFF, FIRST VICE CHAIRMAN, AMERICAN CHAMBER OF COMMERCE IN INDONESIA

On behalf of the American Chamber of Commerce in Indonesia, which represents over 90 U.S. firms now conducting business in that country, I appreciate this opportunity to express opposition to the Textile and Apparel Enforcement Act of 1985 (H.R. 1562).

The proposed legislation undermines U.S. commitments under the General Agreement on Tariffs and Trade (GATT). By subjecting only certain countries to import restrictions, the Bill clearly violates the most favored nations principle, a pillar of U.S. trade policy for decades. The legislation would also undercut several bilateral textile agreements already signed under the Multi-Fiber Arrangement. The Bill is completely contrary to open market principles which we believe should guide our trade policy.

In the case of Indonesia, such a measure would be an ill-timed and misguided way to regulate textile trade.

A recent bilateral trade agreement reached during the week of June 24-29 between negotiators of the U.S. Trade Representative and the Indonesian Government on textile trade deals with the quotas to be applied to Indonesian exports of textiles and apparel to the United States. These negotiations were attended by observers from the Man-Made Fiber Producers Association, the American Textile Manufacturers Institute, the Amalgamated Clothing and Textile Workers Union, and the International Ladies Garment Workers Union. Comprehensive and reasonable agreement was reached to cover all categories of imports. U.S. and Indonesian observers attending these meetings considered the agreement a necessary base upon both industries can satisfactorily work for the next three years. The provisions of H.R. 1562 would undercut this understanding, replacing a carefully negotiated compromise with sweeping, across-the-board, restrictions.

The proposed legislation is discriminatory, antithetical to our international commitments, and, in the case of Indonesia, unnecessary and counterproductive. We respectfully urge you to oppose such potentially damaging legislation.

JOINT STATEMENT OF ANDREW P. VANCE AND MATTHEW T. MCGRATH, ON BEHALF OF AMERICAN INTERNATIONAL KNITTERS CORP. AND COMMONWEALTH GARMENT MANUFACTURING

SUMMARY

(1) The U.S. Commonwealth of the Northern Marianas Islands, and other insular possessions of the United States, should not be included in the definition of "country"in Section 4(4) of H.R. 1562 for purposes of imposing import restrictions.

(2) The U.S. has a special historical economic and political relationship with the Northern Marianas. The Covenant establishing the Commonwealth of the Northern Marianas Islands, making its inhabitants citizens of the United States, affirms the U.S. commitment to playing an active role in the development of the Northern Marianas.

(3) Headnote 3(a) of the Tariff Schedules of the United States, which provides duty free treatment for articles of the insular possessions, would be repudiated by re-defining the possessions as foreign countries. Congress has also declared that possessions are to be treated more favorably than developing countries under the GSP program.

(4) Enactment of the current language of H.R. 1562 would stifle development of the Northern Marianas textiles, apparel and related industries.

STATEMENT

This statement is submitted on behalf of American International Knitters Corp. ("AIK"), and Commonwealth Garment Manufacturing ("CGM"), in response to the Committee's invitation for comments (Subcommittee on Trade, Release No. 10, July 2, 1985) on H.R. 1562, the Textile and Apparel Trade and Enforcement Bill, introduced by Representative Jenkins on March 19, 1985. AIK and CGM are producers of apparel in U.S. Commonwealth of the Northern Mariana Islands (CNMI). These manufacturers believe that the bill as proposed unfairly treats the insular possessions of the United States as though they were foreign producers of textile goods. Such treatment would severely restrict CNMI's economic growth, derogate from the United States undertakings in the Convenant establishing the Commonwealth, and repudiate the intent of General Headnote 3(a). Therefore, AIK and CGM urge the Subcommittee to amend H.R. 1562, Section 4(4), to exclude the term "or an insular possession of the United States" from the definition of "country" for purposes of enforcing textile import restrictions under the proposal. In taking this position, AIK and CGM support fully the testimony of Congressman Ben Blaz of Guam, in hearings of the Subcommittee on Trade of the House Committee on Ways and Means on July 15, 1985, and in his prepared statement submitted to the Senate Committee on Finance the same date. The status of Guam and the other insular possessions and the Northern Marianas are similar and should be examined together by the Committee.

I. HEADNOTE 3(a) OF THE TSUS PROVIDES FOR PREFERENTIAL TREATMENT OF PRODUCTS OF INSULAR POSSESSIONS

Guam and the Commonwealth of the Northern Marianas Islands are defined by the General Headnotes of the Tariff Schedules of the United States (TSUS) to be "insular possessions" for tariff purposes, rather than being within "the Customs Territory of the United States". As such, the products imported into the customs terrority from these possessions are entitled to duty free treatment under General Headnote 3(a), as long as they do not contain "foreign" materials, *i.e.*, materials not originating in the possessions *or* the United States, which constitute more than 70 percent (50 percent for textiles) of the value of the goods when they enter the Customs territory. Headnote 3(a)(i) states as follows:

"*Products of Insular Possessions* (i) Except as provided in Headnote 6 of Schedule 7, part 2, subpart E, and except as provided in headnote 3 of Schedule 7, part 7, subpart A, articles imported from insular possessions of the United States are subject to the rates of duty set forth in column numbered 1 of the Schedules, except that all such articles the growth or product of any such possession, or manufactured or produced in any such possession from materials the growth, product, or manufacture of any such possessions or of the customs territory of the United States, or both, which do not contain foreign materials to the value of more than 70 percent of their total value (or more than 50% of their total value with respect to articles described in Section 213(b) of the Caribbean Basin Economic Recovery Act), coming to the customs territory of the United States directly from any such possession, and all articles previously imported into the customs territory of the United States with payment of all applicable duties and taxes imposed upon or by reason of importation which were shipped from the United States, without remission, refund or drawback of such duties or taxes, directly to the possession from which they are being returned by direct shipment, are exempt from duty."

Headnote 3(a)(ii) provides that no article imported from an insular possession shall receive treatment less favorable than that accorded eligible articles imported from GSP beneficiary countries.

This special treatment accorded products of the insular possessions, of course, predates by many years the duty free treatment now given to products of beneficiary developing countries under the Generalized System of Preferences. The history of Headnote 3(a) indicates that the insular possessions, and specifically, the Northern Marianas, have been treated as more than simply foreign countries, and should not now be relegated to the status of "foreign" suppliers, simply because their production facilities are not located on the mainland of the United States.

A. THE UNITED STATES HAS ENGAGED IN A SPECIAL RELATIONSHIP WITH THE MARIANAS TO FOSTER ECONOMIC GROWTH

Following the Second World War, the Marianas were established as a Trust Territory by the United Nations, with the United States as administering authority. The trust territories were each assigned an administering authority which was directed "to foster the development of such political institutions as are suited to the trust territory and . . . promote the development of the inhabitants of the trust territory toward self-government or independence". United States Trusteeship Agreement, Art. 6(1). Most importantly, the administering authority was to "promote the economic advancement and self-sufficiency of the inhabitants, and to this end, shall regulate the use of natural resources; encourage the development of fisheries, agriculture, and industries; protect the inhabitants against the loss of their lands and resources; and improve the means of transportation and communication." Id., Art. 6(2) This area, the Trust Territory of the Pacific Islands, consisted of the Carolines, the Marshall Islands, and the Northern Marianas.

While the other members of the Trust Territory sought status as independent nation states (through a Compact of Free Association of the Marshall Islands and Micronesia) the Northern Marianas chose instead to enter a close, permanent economic tie with the United States. This arrangement was negotiated from 1963 to 1975, culminating in the "Covenant to establish a Commonwealth of the Northern Mariana Islands and Political Union with the United States." The Covenant was overwheimingly approved by the people of the Marianas in plebiscite in 1975 and approved by Joint Resolution of Congress in 1976, Pub. L. No. 94-241, 94th Cong. 2d sess. (1976). The Joint Resolution reaffirms the United States obligation to "promote the development or independence as may be appropriate to the particular circumstances of the trust territory and its people . . .: Id., Preamble, 2nd Para.

This covenant represents a special relationship between the United States and the U.S. Commonwealth of the Northern Mariana Islands, which has not been chosen by the other districts in the Trust Territory. The Marianas are bound by the Covenant to a permanent political relationship with the United States, including U.S. citizenship for the inhabitants of the islands. The Covenant established the Commonwealth "in political union with and under the sovereignty of the United States of America." Covenant, Section 101. United States income taxes are collected, and the U.S. government has "complete responsibility and authority with respect to foreign affairs and defense . . ." Id., Section 104. All U.S. laws which apply to Guam also apply to the Commonwealth of the Northern Marianas including those related to federal services, financial assistance, banking, coastwise trade, and conditions of employment, including wages and hours of employees. Id., Section 501(a).

The principal economic development component of this relationship is the special treatment of U.S.-Marianas trade under the Covenant. Although the CNMI is explicitly excluded from the customs territory of the United States, imports from the Islands are to be granted the same favorable treatment as imports from Guam. The CNMI is granted the authority to impose duties on articles imported into the Commonwealth, *except* for articles imported from the customs territory of the United States. In addition to this limitation on duty treatment of articles from the United States, the Covenant recognizes the need for developmental assistance in the promise that "the United States will seek to obtain from foreign countries favorable treatment for exports from the Northern Mariana Islands, and will encourage other *countries* to consider the Northern Mariana Islands a developing *territory*." Section 603(d) (emphasis added).

Thus, this combination of undertakings in the Commonwealth Covenant highlight the fact the United States has determined to treat the Northern Marianas as other than a foreign country; the CNMI is an economic and political entity under the sovereignty of the United States, which the United States, as expressed through the Congress, has historically treated both as a developing area and a closely bound political entity. In approving the Covenant, the U.S. Congress distinguished clearly between the CNMI and foreign countries, and the Covenant permits no tariffs or restrictions on U.S. products imported into the CNMI. Ironically, H.R. 1562 seeks to restrict imports of apparel from a territory closely related to the United States which is not permited to restrict U.S. trade in the same manner.

B. HEADNOTE 3(a) TREATMENT OF IMPORTS AND ITS DEVELOPMENTAL GOALS WOULD BE IMPAIRED BY THE DESIGNATION OF THE CNMI AS A FOREIGN COUNTRY

In addition to the stated objectives of the 1976 Covenant, the Northern Marianas have been accorded special trade treatment under Headnote 3(a) during the postwar period. Under Section 301 of the Tariff Act of 1930, imports from Guam were given duty free treatment and imports from the Virgin Islands were dutiable only if they contained foreign materials equal to more than 50 percent of their value. Section 401 of the Customs Simplification Act of 1954 modified section 301 of the Tariff Act of 1930, so as to treat all insular possessions of the United States in a like manner. Section 401 of the 1954 Act provided specifically that: "There shall be levied, collected, and paid upon all articles coming into the United States from any of its insular possessions, except Puerto Rico, the rates of duty which are required to be levied, collected, and paid upon like articles imported from foreign countries; except that all articles the growth or product of any such possession, or manufactured or produced in any such possession from materials the growth, product, or manufacture of any such possession or of the United States, or both, which do not contain foreign materials to the value of more than 50 per centum of their total value, coming into the United States directly from any such possession, and all articles previously imported into the United States with payment of all applicable duties and taxes imposed upon or by reason of importation which are shipped from the United States, without remission, refund, or drawback of such duties or taxes, directly to the possession from which it is being returned by direct shipment, shall be admitted free of duty upon compliance with such regulations as to proof of origin as may be prescribed by the Secretary of the Treasury. In determining whether an article produced or manufactured in any such insular possession contains foreign materials to the value of more than 50 per centum, no material shall be considered foreign, which, at the time such article is entered, or withdrawn from warehouse, in the United States for consumption, may be imported into the United States from a foreign country, other than Cuba, or the Philippine Republic, free of duty."

Pub. L. No. 768, 68 Stat. 1139, Section 401, amending Part I of Title III of the Tariff Act of 1930 (1954). It was reported that this proposal ". . .would result in equal treatment for all insular possessions of the United States, except Puerto Rico, which is within the customs territory of the United States." S. Rep. No. 2326, to accompany H.R. 10009 3 *U.S. Code Cong. and Ad. News* 3905 (1954).

The Tariff Classification Act of 1962, implementing much of the current version of the Tariff Schedules of the United States, adopted the concept of the amended section 301 and incorporated it as Headnote 3(a) of the General Headnotes to the Tariff Schedules. Headnote 3(a), set forth above, has undergone certain additional changes since the 1962 Act, but none of the amendments has affected the eligibility of products from insular possessions to receive duty free treatment.

The intent of Congress that insular possessions be treated differently and more favorably than foreign countries was reaffirmed in the enactment of the Generalized System of Preferences (GSP) in 1975. The Trade Act of 1974 defined "country" for purposes of receiving the duty free benefits accorded under GSP, to include the Trust Territory of the Pacific Islands. 19 U.S.C. § 2462(a)(3); Pub. L. No. 93-618, Section 502(a)(3)(1975). This resulted in the amendment of Headnote 3(a)(iii) to note that GSP eligible articles from insular possessions "shall receive duty treatment no less favorable than the treatment afforded such articles imported from a beneficiary developing country under title V of . . . [the Trade] Act [of 1974]." The reason for the change was explained by the Committee on Ways and Means:

"The term "country" is specifically defined to include the insular possessions of the United States to insure that they may be designated as beneficiaries. Designation as a beneficiary is *not intended to impair any benefits that these possessions are receiving by reason of headnote 3(a) to the Tariff Schedules of the United States.* Your committee strongly believes that the products of U.S. insular possessions should under no circumstances be treated less advantageously than those of foreign countries. To the extent that such products would be entitled to better treatment under headnote 3(a) than under this title, they should receive treatment under 3(a).

"Indeed, in determining eligibility of an article under this title, the President *should take into account the extent to which duty-free treatment of such articles from the insular possessions are presently contributing to the economic well-being and development of the insular possessions,* and the extent to which such trade would be adversely affected if such articles were to be made eligible for generalized tariff preferences." H. Rep. No. 93-571, 93d Cong., 1st Sess. 85 (1973) (emphasis added).

Obviously, Congress considered the insular possessions to be more than simply developing foreign countries. The insular possessions are developing areas under a special economic mandate and sovereignty of the United States, and although not within the customs territory of the United States, should continue to be treated in a manner more favorable than GSP beneficiaries and other foreign countries.

II. THE TREATMENT OF THE INSULAR POSSESSIONS AS A "FOREIGN COUNTRY" WOULD UNDERMINE THE ECONOMIC DEVELOPMENT OF THE CNMI

As proposed, H.R. 1562 would limit imports from the Commonwealth of the Northern Mariana Islands to 1% growth during 1985, since permissible import growth from countries which are not major exporting countries will be held to 1 percent for textile and apparel products in "import sensitive" categories. This limitation on CNMI imports would have a damaging impact on the Commonwealth's ability to develop industry and encourage employment. AIK and CGM are major manufacturing concerns in the CNMI. Because the Islands are at a fairly early stage in the development of their garment manufacturing industries, it is unfair and counterproductive to limit import levels by reference to 1984 export volumes, essentially freezing the industry at its current levels. Of course, this argument might be made by any smaller supplying country which would be adversely affected as a result of the quota provisions in H.R. 1562. However, as outlined above, CNMI is not merely another country, and should not be treated as such, in light of the long-standing U.S. goal of encouraging its development even more vigorously than that of GSP beneficiaries, and in light of the application of many other U.S. laws in the Commonwealth of the Northern Marianas.

Ironically, under H.R. 1562, the CNMI, a U.S. possession whose inhabitants are American citizens, is treated less favorably than Canada and the member states of the Europen Communities. These foreign states are specifically excluded from the definition of the term "country" and "major exporting country", while the CNMI, with its present close political and economic bond to the United States, and history of preferential treatment under the U.S. tariff laws, is cast in the role of a foreign supplier. This discriminatory treatment appears to be proposed for no other reason than that the CNMI's apparel industry is not located on the U.S. mainland.

Imports of cotton, wool, and man-made fiber sweaters from the CNMI are already subject to import limitations, if certified to have been assembled in the Marianas from components produced in foreign countries of foreign territories. 50 Fed. Reg. 8650 (Mar. 4, 1985). This limitation is part of the recently revised country of origin rules for textiles and apparel, promulgated by the U.S. Customs Service for purposes of enforcing quota restrictions against textile supplying countries. The additional broad restrictions proposed in H.R. 1562 would extend well beyond the impact of these origin rules, and would seek to establish limits even on apparel manufactured entirely in the CNMI.

III. CONCLUSION

The United States has a close historical political and economic relationship with the United States Commonwealth of the Northern Mariana Islands. The inclusion of insular possessions in the definition of countries under H.R. 1562 would represent a departure from the developmental goals of this relationship, and would be inconsistent with the enforcement of United States laws and U.S. jurisdiction within the Marianas. Such treatment would also nullify and impair the intended effect of Headnote 3(a) treatment of goods imported from the CNMI. The likely result will be an adverse impact on internal development of the CNMI, and on the Commonwealth's ability to attract capital for further development.

Consequently, AIK and CGM urge the Subcommittee to delete the words "or an insular possession of the United States" from the definition of "country" in Section 4(4) of H.R. 1562, and to clarify in its report to the House that the bill is not intended to treat imports from insular possessions in a manner less favorable than provided for under Headnote 3(a).

Blue Mountain Industries,
Blue Moutain, AL, April 9, 1985.

Trade Subcommittee,
Ways and Means Committee,
U.S. House of Representatives, Washington, DC.

Gentlemen: We in the Alabama Textile Industry appreciate your holding a public forum on the textile and apparel industry since it is increasingly more obvious that if something is not done, US textiles will go the route that many other industries have experienced due to import pressure.

Here at Blue Mountain Industries, we have already suffered substantially since the shoe factory industry is one of our major areas of sale. More than 300 shoe factories have closed their doors during the last ten years—80% of the total shoes sold in the USA in 1984 were imported. Blue Mountain employment has dropped from

1100 in 1974 to 530 in 1985, to say nothing of the 27,000 jobs lost in the shoe industry in the past two years.

The current surge of imports is costing tens of thousands of American jobs and creating an economic crisis in the textile/apparel industry. It threatens the future of an additional two million people who are directly employed by textile/apparel industry in the United States. Our industry and our jobs cannot survive as they now exist unless something is done to freeze the growth of imports.

We urge that appropriate emergency action be taken to accomplish this.

Sincerely,

T. A. Rothwell, *President.*

Statement of Dominic Kwang Ntube, Policy Analyst, Bread for the World

1. Bread for the World, a nationwide grassroots, anti-hunger Christian movement believes that international trade provides a chance to break the cycle of povety, hunger and economic injustice by providing jobs for workers, enhancing competition, and providing foreign exchange for international transactions.

2. We believe that the protectionist nature of the Trade Enforcement Act of 1985 would hurt (a) low income producers, exporters and consumers of textile and related commodities in the United States and (b) the poorest textile exporting developing countries and their poor people in Africa, Asia and Latin America. The Trade Act would exacerbate the human and social costs in LDCs relying heavily on the most needed foreign exchange abroad for the payment of their huge debt burden and interest rates.

3. We hold strongly that Trade Enforcement Act violates the Multi-Fibre Arrangement (MFA) between the U.S. and 42 textile and apparel producing developing countries. This violation of U.S. international obligations is morally unjustified and invites retaliation from MFA members. Such retaliatory measures as may be taken, would be harmful to U.S. consumers. Essentially, the budget of some 21.2 million people in about 7 million households already in the low-income bracket and receiving food stamps to supplement their poor living conditions would be hardest hit.

4. We believe that tariffs and quotas almost always lower world well-being. It creates a monopoly that leads to higher prices, lower output, and greater national losses.

5. Bread for the World is therefore opposed to the legislation in its current form. Our members believe that the remedy to the problem of the textile and apparel industry, like those of other sectors, lie somewhere else.

6. We believe that the root cause of the problem revolves around two issues (i) the over-valued dollar, and (ii) U.S. deficit spending and flawed monetary policy.

7. While opposing the current Trade Act, Bread for the World recommends the expansion of the Trade Adjustment Assistance (TAA) to enable U.S. workers and businesses hurt by foreign trade competition to adjust to long-term shifts in the global economy.

8. Rather than increasing protectionism, Bread for the World believes that what is needed to protect U.S. workers without hurting our low-income consumers and people in LDCs is finding solution on the over-valued dollar and U.S. deficit spending. The legislation serves only to treat the symptoms of U.S. problems, and not the root cause.

STATEMENT

Mr. Chairman and Members of the House Subcommittee on International Trade of the House Finance Committee, we appreciate this opportunity to be able to express our view on the current conditions in the Textile and Apparel Industries and particularly on H.R. 1562. We are particularly concerned about its effect on (a) low income producers, exporters and consumers of textile and related commodities in the United States and on (b) the poorest textile exporting developing countries and their poor people in Africa, Asia and Latin America.

My name is Dominic Kwang Ntube. I am a policy analyst on trade and finance issues with Bread for the World. I am also a Bread for the World resource person on African Affairs.

Bread for the World is a nationwide grassroots, anti-hunger Christian movement with a membership of over 48,000. The movement recognizes that the hungry, whether found in the slums of Cairo in Egypt, in the cities of the U.S. or in a textile factory in Dhaka, Bangladesh have a shortage of lobbying advocates on U.S. government policies affecting them. We therefore seek to help fill this gap, and lobby on issues affecting those with little or no opportuntiy to be heard but who bear consequences of policies formulated by others.

Mr. Chairman, Bread for the World recognizes the importance of international trade for alleviating poverty and hunger. Trade provides a chance to break the cycle of poverty, hunger and economic injustice by providing jobs for workers, enhancing competition, and providing foreign exchange for international transactions. We believe that trade is one of the most common manifestation of the economic interdependence of the South (developing countries) and the North (industrialized countries). Thus, Bread for the world members have worked on international trade issues, including the Caribbean Basin Initiative (CBI). Our members also strongly supported the renewal of the reformed Generalized System of Preferences (GSP) which passed Congress, October 4, 1984. We particularly support its "land for food" provision that requires that appropriate U.S. agencies work with GSP beneficiary countries to ensure that increased agricultural exports do not come at the expense of production of food for local consumption.

Bread for the World is becoming increasingly concerned with the growing protectionism in developed countries (DCs), like the United States, agains exports from poor developing countries (LDCs). For the past few years, the administration, despite its preference for free international trade, has implemented new import barriers in four major industries; autos, textiles and apparel, sugar and steel. The general tightening in 1981 of the Multi-Fibre Arrangement (MFA) controlling trade in textiles and apparel, and new protection in sugar, have affected developing countries' export prospects at a time when there need is acute for foreign exchange to make payments on heavy external debts. We are thus particularly concerned with the Textile and Apparel Trade Enforcement Act of 1985.

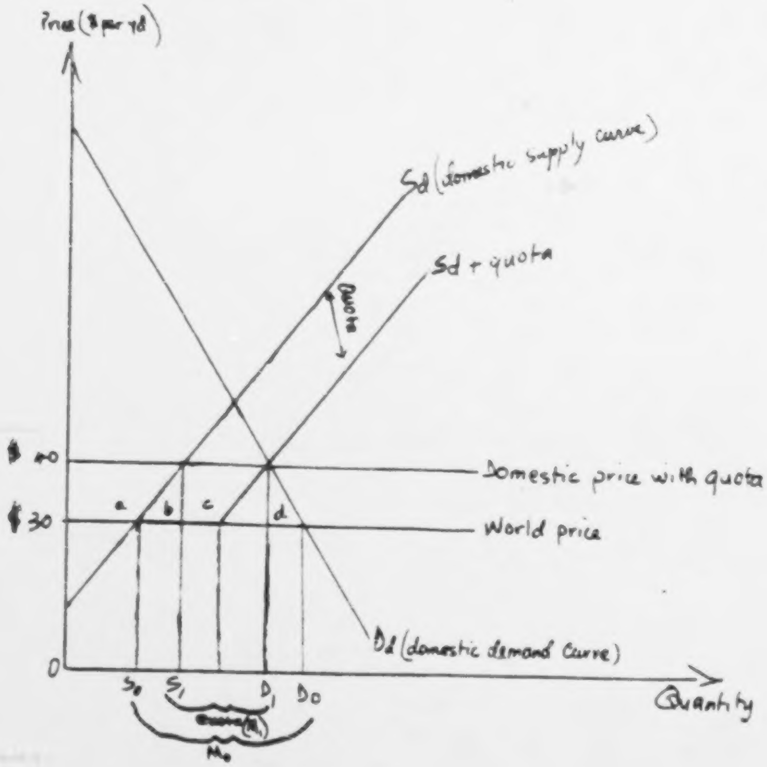
Mr. Chairman, our understanding of the content of this Trade Act is that quotas would be established for all textile imports on a category by category basis. These quotas would be applicable to all countries except Canada and EC members. The bill defines two categories of exporters: "*major exporting countries*" are defined as those whose exports to the U.S. account for 1.25% or more of total U.S. textile and apparel imports while "*exporting countries*" are defined as those whose exports represent less than 1.25% of total U.S. textile and apparel imports. (See Appendix I) We understand that major exporting countries would, on product category basis, be limited to 1% growth from the level that would have occurred in 1984 if imports had grown by 6% a year from 1981-84, or, if the exporters had an agreement with the U.S. limiting growth to less than 6%, the country's 1984 level of imports. Imports from thereon could grow by 1% annually. On the other hand, "exporting countries" in the first year of the new quotas would be permitted to increase on a product category basis no more than 15% annually above their 1984 levels, except in categories defined as "import sensitive". Import senstitive goods are defined as those imports which equal 40% or more of U.S. production. Growth in imports of these categories would be restricted to 1% above 1984 levels, and could increase thereafter by 1% annually. The legislation also contains provisions which would require the Commerce Department to issue regulations governing the entry of textile and apparel imports, and also to establish an import licensing system wherein all importers of textile and apparel would have to pay a fee for import licenses.

Mr. Chairman, the Trade Act provides little or no allowable growth for any of the exporting countries. Overall, apparel imports from countries targeted by the legislation (category I and II) would be reduced by 20%, while textile imports would fall by 30%. Some of the major exporting countries will experience sharp cuts well over 50%. According to research on the subject by experts already made available to the Chairman during the hearings, there would be an 85% cut back of shipment from Indonesia, 66% from Brazil, 57% from China and 47% from Taiwan. (Appendix II) Further, while the trade law does not roll back imports from smaller suppliers of textiles and apparels such as Bangladesh, Haiti and Lesotho, the quota effectively eliminates "any meaningful growth opportunities from them in the future." The International Business and Economic Research Corporation (IBERC) a Washington, D.C. based research organization which has conducted a study on the Trade Act confirms this fact. The study also indicates that if the proposed legislation had been enacted in 1983, Bangladesh textile and apparel exports to the United States in 1984 would have been only 3% greater than their 1983 volume and 78% smaller than their actual level of 1984. Bangladesh is highly dependent on the U.S. market as over 75% ofthat country's textile and apparel exports are sold to the U.S.

According to a June 25 article in the New York Times, five U.S. cabinet officials have warned that this textile quota bill that now commands cosponsorship of a majority in both houses of Congress would impose a "very high cost" on consumers, violate international obligations, invite retaliation and provide the domestic industry with "unprecedented" protection. A letter to members of Congress signed by Treasury Secretary James A. Baker 3rd, who is also chairman of the President's Economic Policy Council, Secretary of State George P. Shultz, Commerce Secretary Malcolm Baldrige, Labor Secretary William Brock and Acting United States Trade Representative Michael B. Smith, estimates that the legislation would cost consumers $2 billion annually, and those who would be hardest hit are low-income families. According to the Labor Department's latest available statistics in *Interview Survey 1980/81*—Bulletin No. 22-25, a household with income of $5,000 in 1980/81 spent $636 annually on apparel, footwear and services including shoe repairs and dry cleaning. A 3% increase in the price of textile and apparel due to a quota indicates that such a family, after an adjustment made for inflation, will now spend an extra $27, bringing the total to $636 + $27 = $663 annually. Such an increase will affect the budget of mainly the 21.2 million people in about 7 million households (1984) already in the low-income bracket receiving food stamps to supplement their poor living conditions. These people would have to pay more for clothing and home furnishings—products that make up a major portion of the family budget.

Mr. Chairman, the IBERC study cited earlier, has estimated total cost of increasing import quota on textile and apparel. It has also projected the distribution of those costs among the governments, employment, impact on prices and the cost associated with the import licensing system. (See Appendix III) The study indicates that apparel import prices would increase on average by 16% at wholesale price, while textile prices would increase on average 33%. Further, weighted average apparel prices (domestic and imported) will rise by a minimum of 3% while textile prices will increase by 3%. The study used the partial equilibrium model of analysis to derive the cost of the quota to consumers. The cost quantified by the study can be illustrated graphically, Figure I. On a simple demand and supply graph, the welfare effect of a quota on cloth is apparent. The quota in Figure I is determined by the difference between the world price and the domestic price with the quota. The quota is assumed to induce domestic producers to raise their production at home at marginal costs rising up to $40 per yard of cloth when they could have been bought abroad for $30 per yard. At the world price of $30 consumers would buy S. a yard of cloth from domestic suppliers and would import M. a yard of cloth a year. Therefore, they would buy D. = S. + M. yards of cloth in all. However, with a quota, the domestic price increases by $10, i.e. $40-$30 = $10. Consumers lose area (b). The price markup on the allowed imports area (c), is an internal redistribution from consumers to whoever commands the licenses. The net loss is areas (b) and (d).

Figure I: The Effect of a quota on Clothes:



Mr. Chairman, an import quota frequently creates a domestic monopoly and inefficient allocation of import licenses. In such a situation, the domestic firm knows that no matter how high it raises its prices, competing imports cannot exceed the quota. So a quota gives the dominant firm a better chance of facing an inelastic demand curve (Figure I). The curve indicates that consumers remain relatively unresponsive to price changes. *Such a monopoly-created quota leads thus to higher prices, lower output, and greater national losses.*

Mr. Chairman, the impact of the trade bill on employment opportunities in retailing, importing, exporting, farming, shipping, banking and manufacturing have already been discussed in other testimony. Much has also been said about the impact of the quota bill on U.S. consumers. However, Bread for the World members are especially concerned about the impact of the quota bill on low income America. We are also concerned about its impact on particularly textile and apparel exporting developing countries. At this point, one may ask the followng questions: who bears the burden of the impact of the legislation in developing countries (LDCs)? Is such a piece of legislation relating to hungry people in LDCs?

Mr. Chairman, the World Bank's 1984 World Development Report estimates that by the year 2000 there will be some 600 million people living in "absolute poverty." Former World Bank President Robert McNamara defines absolute poverty as "a condition of life so characterized by malnutrition, illiteracy, disease, high infant mortality, and low life expectancy as to be beneath any reasonable definition of human decency." Mr. McNamara's prophecy is true today. In fact midway through the United Nation's 3rd Development Decade, a vast majority of 2.5 billion people located mainly in developing countries, have witnessed a sharp decline in their living standards. A billion of these people are facing a decline in per capita food production, consumption is declining below acceptable nutritional standards, while at the same time LDCs are facing significant international debt payment difficulties to the point of insolvency. The wrenching effect of these difficulties in terms of human cost is difficult to capture in words. World view recently focused on Ethiopia and other parts of Africa and the world was provided with a grim picture of the acute human tragedy caused by hunger. While poverty is worse in most African countries, conditions are not much better in Bangladesh, Indonesia, Haiti, Brazil and the Philippines, all of which are textile and apparel producing and exporting countries that would be affected by the quota trade bill. The question that immediately comes into one's mind is why so many of the world's people are poor and hungry.

Mr. Chairman, one answer which has emerged in recent years is that a major culprit is structural inequities in the international economic system. Structural inequities, such as the current pattern of trade relations, effectively prevent the conquest of hunger, poverty, inflation and unemployment and result in a continuous widening gap between the rich and poor.

This answer is increasingly the consensus position of poor developing countries leaders. Convinced of the inequity of the present order, they have, as you know, since 1964 called for a "New International Economic Order (NIEO). They contend that LDC purchasing power is declining steadily, due to the low and fluctuating prices of the raw materials they export and the increases in the cost of industrial technology, oil, and other items they import. They cite their countries' small and declining share in world manufacturing and trade, and point with bitterness to tariffs, quotas and other trade barriers which bar their nations' products from ready access to industrial country markets. They also stress that they are dependent on growing export industries to pay off their escalating debts to the developed world. They claim that they are unequal participants in global political and economic decision-making institutions, such as the UN Security Council, the World Bank and the International Monetary Fund (IMF).

Bread for the World members appreciate the concerns expressed by the poor LDCs and believe that trade is one main solution to the frustration of these countries. Bread for the World therefore thinks trade is important for LDCs for three main reasons: (i) exports pay for imports of food and of machinery and other items necessary to increase productivity. These imports can be paid for only with money earned by exporting goods such as textile and apparel; (ii) LDCs access to outside markets allows these countries to take advantage of economies of scale, and (iii) export earnings are much larger and more dependable than "foreign aid" and other outside assistance—providing more jobs, increased skills and consolidate the independence of these poor countries. Allowng developing countries' exports, therefore, is a far better solution than asking Congress for a moritarium on the $200 billion (1984) owed by these countries to U.S. private and official institutions.

Mr. Chairman, Bread for the World regards trade therefore as a hunger issue and a main way to break the cycle of poverty and starvation in the LDCs. Most of these countries continue to face wrenching IMF austerity measures. The impact of such measures are shifted to low income people at the periphery of the state and international system. Take for example, Brazil—a country that would be affected by the law. Its debt burden was $79.6 billion in 1983. In 1985 it is projected to be $100 billion with a debt service ratio of 43% in 1982 (See Appendix IV). Families see their children starve each day. In fact, about 1,000 children starve in Brazil every day. And the logic is that you must pay the debt and to pay this debt you must work more, eat less, in order to export the resources, soybeans, meat, textile and apparel, etc. Gains from exports go not only to pay the debt but also pay interest on the principal. In 1983 all Latin America countries were paying $30 billion to the industrialized countries on interest alone. This is a transfer of capital from a people that most need the capital. With Brazil's huge debt burden of $100 billion one can imagine the devastating effect of a 66% cut on textiles and apparel imports from that country to the U.S. It would not only mean a sharp cut in production and foreign exchange of one of Brazil's main exports but also implies that the country would be unable to reschedule its debt and honor interest payments on principal. There would also be a down-turn on all the indicators of poverty and development in that country. (See Appendix V) Infant mortality would be on the rise, and so would life expectancy, literacy, caloric intake, poor education, hunger and starvation, abject poverty and political instability that would threaten the very foundation of democracy the world over. Other countries such as Indonesia with a per capital income of $580, Pakistan with a per capita income of $380 and a debt burden in 1983 of $23 billion (Appendix VI), and Bangladesh which would experience a sharp cut of 56% in exports of textile and apparel with a per capita income of only $130 in 1983 dropping from $140 in 1982 (Appendix V), face the same acute teething problems as Brazil. All of these countries and others would experience serious setbacks in their economic development with the imposition of import quotas on the main industry that provides these poor countries with their primary source of foreign exchange which is crucial for international transactions and payment of the debt.

Mr. Chairman, before I conclude, let me refer to the work of Prof. William R. Cline of the Johns Hopkins University School of Advanced International Studies (SAIS) and also of the Institute of International Economics. In *Trade Policy in the 1980s*, which Prof. Cline edited, a number of issues have been outlined on the textile and apparel industry relevant to the present discussion. Whether in the U.S. or textile exporting LDCs, according to the book, the workers in this industry are predominantly women. In the U.S. specifically, such women are usually over 50 years old. They are also those with no more than elementary school education and in the U.S. they are predominantly minorities. In the apparel manufacturing industries, they reside in predominantly urban, inner-city areas or single-industry rural towns. These workers cannot easily shift to other employment. Textile labor both in the U.S. and developing countries is immobile. They cannot pick up and move easily to new jobs. Thus the unemployed workers most often become workers without a job for an indefinite period. For LDCs relying only on one export commodity, a quota brings additional hardship as the country cannot easily diversify its exports and markets. In these countries, the Prof. Cline's analysis indicates that quotas on textiles spell disaster for many families. A market monopoly created by the quota, as indicated earlier leads to higher prices of textile and apparel. The beneficiaries of such higher prices in the form of 'economic rents' or profits will eventually be large textile and apparel corporations in the U.S. From this analysis of this industry and the impact of a quota on textiles, one may further ask what would happen to the farmers and herdsmen who supply cotton, flax and wool in LDCs? How about the small factories that harvest silk from caterpillar cocoons and whose livelihood depend on working in these factories in LDCs? What would be the fate of interior designers, garment manufacturers, upholstered furniture manufacturers, industrial producers in the U.S.? What about those making such products as conveyor belts and filter cloths, retail merchandisers in the U.S. of textile fibers, fabrics and finished goods? What would become of the 21.2 million Americans and the nearly one billion people starving in developing countries if such a proportionately large portion of their family budget on clothing—$636 (1980/81) is increased by $27 in 1985? And what would be the fate of the governments of these poor countries hard pressed with huge debt burdens?

Mr. Chairman, whatever the case, tariffs and quotas almost always lower world well-being. They lower the well-being of each nation and as a general rule, whatever a quota or tariff can do for a nation, something else can do it better. Bread for the World is therefore opposed to the legislation in its current form. Bread for the World members believe that continuous imposition of tariffs and quotas on imports from developing countries does not benefit the U.S. economy as a whole and is detrimental to U.S. relations with the affected nations. The remedy lies somewhere else and includes tackling the problems of the over-valued dollar, U.S. deficit spending and flawed monetary policy. Bread for the World continues to advocate expansion of the Trade Adjustment Assistance (TAA) to enable U.S. workers and businesses hurt by foreign trade competiton adjust to long-term shifts in the global economy. This, coupled with a sounder, full-employment economic policy, rather than increasing protectionism is what is needed if we are to protect our workers without hurting our low income consumers and people in developing countries. This bill serves only to treat the symptoms of U.S problems, and not the root cause. Thank you very much Mr. Chairman.

APPENDIX I

(A) *Major Exporting Countries.*—Indonesia, Brazil, China, Thailand, Pakistan, South Korea, Japan, Philippines, Hong Kong, India, Singapore, and Taiwan.

(B) *Exporting Countries.*—Colombia, Dominican Republic, Israel, Lesotho, Sri Lanka, Spain, Bangladesh, Egypt, Haiti, Malaysia, and Peru.

APPENDIX II—IMPACT OF THE PROPOSED LEGISLATION ON TRADE FROM MAJOR EXPORTERS

[Millions of Square Yard Equivalents and Percent]

Country	Textiles				Apparel				Total			
	New restraint	Actual 84 trade	Change		New restraint	Actual 84 trade	Change		New restraint	Actual 84 trade	Change	
			Quantity	Percent			Quantity	Percent			Quantity	Percent
Brazil	36.3	162.3	−126.1	−78	30.4	32.7	−2.2	−7	66.7	195.0	−128.3	−66
China	221.2	545.5	−324.4	−59	205.9	445.3	−239.4	−54	427.0	990.8	−563.8	−57
Hong Kong	221.0	234.1	−23.1	−10	715.1	814.8	−99.7	−12	926.1	1048.9	−122.8	−12
India	121.7	122.0	−0.3	(1)	103.4	131.1	−27.7	−21	225.2	253.1	−27.9	−11
Indonesia	14.4	139.5	−125.1	−90	26.0	128.4	−102.3	−80	40.4	267.8	−227.4	−85
Japan	486.1	599.8	−113.7	−19	120.3	137.9	−17.6	−13	606.4	737.7	−131.3	−18
Korea	202.0	480.3	−278.3	−58	576.2	686.5	−110.3	−16	778.2	1166.8	−388.6	−33
Pakistan	158.5	241.5	−83.0	−34	37.2	63.2	−26.0	−41	195.7	304.7	−109.0	−36
Philippines	21.0	7.5	+13.5	+179	188.0	234.4	−46.4	−20	209.0	241.9	−32.9	−14
Singapore	48.6	12.1	+36.4	+300	103.8	127.8	−24.1	−19	152.3	140.0	+12.0	+9
Taiwan	143.7	647.1	−503.4	−78	694.4	935.5	−241.1	−26	838.1	1582.7	−744.5	−47
Thailand	39.4	105.7	−66.3	−63	56.9	106.3	−49.5	−47	96.2	212.0	−115.8	−55
Total	1,713.9	3,297.4	−1,593.8	−48	2,857.6	3,843.9	−986.3	−26	4,561.3	7,141.4	−2,580.3	−36

[1] Less than 0.50 percent.

Source: International Business and Economic Research Corporation.

APPENDIX III.—SUMMARY OF PRESENT VALUE OF COST EFFECTS OF INCREASING IMPORT QUOTAS ON APPAREL AND TEXTILES

[Millions of 1984 dollars]

	Total cost	Cost of employment changes		Net welfare loss
		Manufacturing	Retail	
	(1)	(2)	(3)	(1) – (2) + (3)
A. Apparel:				
Year:				
1	$2,386	$106	$130	$2,410
2	2,294	0	0	2,294
3	2,206	0	0	2,206
4	2,121	0	0	2,121
5	2,040	0	0	2,040
Total 5 years	11,047	106	130	11,071
B. Textiles:				
Year:				
1	950	179	8	779
2	913	0	0	913
3	878	0	0	878
4	845	0	0	845
5	812	0	0	812
Total 5 years	4,398	19	8	4,227

Source: International Business and Economic Research Corporation.

APPENDIX IV.—"MAJOR EXPORTING COUNTRIES"

	Percent reduction in trade [1]	Textiles and clothing percent of merchandise exports 1981 [2]	GNP per capita, U.S. dollars [3]		Total debt 1983 U.S. dollars millions [4]	Debt service ratio [5] total debt service to exports of goods and services	
			1982	1983		1982	1983
Indonesia	–85	1	580	560	[6] 21,768.8	10.6	12.8
Brazil	–66	4	2,240	1,890	79,580.1	43	28.7
China	–57	2	310	290			
Thailand	–55	10	790	810	9,731.1	9	11.3
Pakistan	–36	41	380	390	23,071.1	16.4	21.9
South Korea	–33	30	1,910	2,010		13.1	12.3
Japan	–18	4	10,080	10,100	13,659.4		
Philippines	–14	7	820	760	[6] 223.7	13.1	15.4
Hong Kong	–12	42	5,340	6,000	21,429.2		
India	–11	23	260	260	[6] 1,243.6		[7] 14 (1985)
Singapore	–9	4	5,910	6,660		.8	1.3
Taiwan	–47		2,540				

[1] Source: International Business and Economic Research Corporation.

[2] Source: 1984 World Bank Development Report.

[3] Source: 1985 World Population Data Sheet of the Population Reference Bureau Inc.

[4] [5] Source: World Debt Tables, The World Bank.

[6] Excludes: private nonguaranteed external debt, and transactions with the IMF with the exception of Trust Fund loans.

[7] Source: Quarterly Economic Review vol. 1, 1984.

APPENDIX V.—MAJOR EXPORTING COUNTRIES

	GNP per capita 1983 $U.S. [1]	Infant mortality rate per 1000	Life expectancy rate at birth [2]
Indonesia	560	102	53
Brazil	1,890	73	64
China	290	67	67
Thailand	810	51	63
Pakistan	390	121	50
South Korea	2,010	32	67
Japan	10,100	7	77
Philippines	760	51	64
Hong Kong	6,000	10	75
India	260	94	55
Singapore	6,660	11	72

[1] Source: 1985, 1984 World Population Data Sheets, The Population Reference Bureau.
[2] Source: 1984 World Bank Development Report.

APPENDIX VI.—EXPORTING COUNTRIES

	Textiles and clothing percent of merchandise exports 1981 [1]	GNP per capita $U.S. [2]		Total debt 1983 $U.S. million [3]	Debt service ratio (total debt service to exports of goods and services)		Life expectancy at birth [1]	Infant mortality rate per 1,000 [1]
		1981	1983		1982	1983 [3]		
Colombia	8	1,460	1,410	8,147.1	17.6	21.3	64	54
Dominican Republic		1,330	1,380	2,403.2	22.7		62	65
Israel	6	5,090	5,360	15,148.8	21.0	19.6	74	16
Lesotho		510	470	145.2	2.5	2.5	53	94
Sri Lanka	16	320	330	2,207.0	10.2	11.9	69	32
Spain	6	5,430	4,800				74	10
Bangladesh	56	140	130	[4] 4,184.5(d)	10.9	14.7	48	133
Egypt	7	690	700	[4] 15,530.8(d)	26.0	34.0	57	104
Haiti		300	320	[4] 433.5(d)	5.7	5.3	54	110
Malaysia	3	1,860	1,870	[4] 10,665.2(d)	5.6	5.8	67	29
Peru	8	1,310	1,040	[4] 7,931.5(d)	36.4	19.6	58	83

[1] Source: 1984 World Bank Development Report.
[2] Source: 1984 World Population Data Sheet of the Population Reference Bureau Inc.
[3] Source: 1985 World Debt Tables, The World Bank.
[4] Excludes: private nonguaranteed external debt and transaction with the IMF with the exception of Trust Fund loans.

STATEMENT OF HON. JIM BROYHILL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA

Mr. Chairman and distinguished colleagues:

I appreciate the opportunity to appear before you today to share my support, and the support of 290 members of the House for the Textile and Apparel Trade Enforcement Act of 1985.

The introduction of this timely and significant piece of legislation is important to this Nation's economy as well as to more than 2 million textile and apparel employees across the Nation.

The unwarranted and unprecedented rate at which imports are entering this country demands strong action. That is why we are here today.

If current import trends continue, by 1995 out Nation will no longer have a textile industry. Last year, in North Carolina alone, 43 plants closed displacing some 18,000 employees. A recent econometric analysis by Data Resources, Inc. (DRI), states that the failure to pass this legislation will result in unemployment for not only 947,000 Americans in the textile and apparel industries, but 943,000 others, in related industries due to the ripple effect.

Furthermore, the study contends that the failure to pass this legislation will increase the federal budget deficit by $24 billion, lower consumer disposable income by $19 billion and GNP by $40 billion.

The United States' market is virtually the only market in the world that other textile and apparel producing countries target for growth and possible takeover; yet an estimated 75% of the world's nations are managed by governments that unfairly subsidize their industries' exports and protect their own markets.

It is difficult to compete with nations who do not know the definition of the word "minimum wage;" who pay the equivalent of 16¢ per hour; have no regulatory overhead nor a concern for the "health and safety" of their employees. Instead, these nations expend their energies acquiring U.S. dollars and buying U.S. market share at any cost. This year the merchandise trade deficit is expected to top $140 billion—a staggering record.

Free trade, if it does exist outside of textbooks, does not exist in the textile and apparel trade. Many nations exclude our exports through tariff and non-tariff barriers. I would like to take a moment to comment on some specific examples of barriers faced by U.S. textile and apparel manufacturers.

The International Trade Administration (ITA) reports that Brazil requires import permits and commercial invoices for goods. Import licenses are refused for most imported goods such as yarn, fabrics, carpets and apparel items, if similar products are also manufactured in Brazil. Furthermore, the country places merchandise circulation taxes, industrialized product taxes, and airport and port improvement taxes on imported goods.

Indonesia requires imported textile products to pass through registered importers who have been accredited by the Minister of Trade and Cooperatives. Importers must obtain both an "Importers' Certificate" and a "Fiscal Certificate" in order to import. Most imports are subject to surcharges up to 200%. Restricted goods include grey and finished sheeting, yarn, thread waste and nylon hosiery.

Since 1967, Korea has had an import plan based on a restricted list of items whose import license must be approved by the appropriate ministry or trade associations. Within the restricted list, certain items are specifically banned.

The Philippines totally bans used clothing, remnants, wearing apparel, and textiles, except those used in the manufacture of apparel items which will be re-exported.

India requires import licenses for practically all products. Aside from a few items in short supply, commercial imports of textile products are banned. Furthermore, an excise tax and countervailing duty is levied on almost all textile products. Imports are governed by foreign exchange considerations and the availability of foreign aid.

These are only a few of the barriers facing U.S. manufacturers who would like to do business overseas. It is obvious that the United States is not dealing with a "free trade" world. The fiber, textile, and apparel industries can compete with other nations when the field is evenly balanced. The passage of the Textile and Apparel Trade Enforcement Act seeks to set that balance.

I was extremely disappointed by the letter which the Administration sent out a few weeks ago in opposition to this legislation. I share the thoughts of an overwhelming majority of my colleagues in the House of Representatives who feel that it is high-time the Administration faces reality with resepct to the devastating effect imports are having on the American economy.

We maintain that this legislation is completely consistent with the objectives of the MFA and that it would mandate actions very similar to those taken unilaterally by the European Community several years ago. The EEC cut back trade from major suppliers, set up low growth rates and a global approach on imports. Those actions were accepted and in fact, the MFA was modified through a protocol of understanding to specifically permit the kinds of actions taken by the EEC. The EEC is now absorbing one fourth of the imports that the U.S. absorbs.

The Administration has expressed its concern about the domestic consumer. I feel strongly that if we persist in giving away our domestic production to plants overseas, it is domestic consumers who will pay the price. Competition among U.S. textile and apparel producers has historically held price increases of domestic textiles and apparel to around 50% of the U.S. inflation rate. Do we as a nation want to depend on foreign sources for all of our needs? I do not think so.

If we do, we will more than likely face a repeat of the situation in which U.S. velveteen producer was forced to close his door—within hours, foreign producers raised their prices by $1.00 per yard. The American consumer was not the beneficiary of that action.

Consumers generally face mark-ups of 200 to 300% for imported goods at the retail level. Many imported goods actually sell at higher prices than their domestically produced counterparts. The consumer is not the beneficiary of such mark-ups.

I am aware that many of my distinguished colleagues have expressed concerns about potential retaliation by other nations against U.S. agricultural markets. Increased foreign production capabilities, as well as the value of the dollar, have led other nations to push the U.S. aside in the demand for wheat, corn, tobacco, and cigarettes.

The People's Republic of China (PRC), for example, is currently self-sufficient in cotton production. The country has become a formidable exporter of cotton and could well destroy that segment of the U.S. industry by 1990.

The PRC's internal production of wheat is expected to increase so that the country will be self-sufficient in that area by the end of the decade.

Simply speaking, China is positioning itself so that it will be self-sufficient in many of these areas. Why are we, as an industrial power, allowing the industries which made this country so strong to die?

Mr. Chairman, since 1980, the objectives of orderly market growth set forth in the Multi-Fiber Arrangement have not been achieved. The MFA signed by 41 countries, provides for a 6% annual rate of growth for textile imports for most exporting countries and a lower growth rate from major exporting countries. In the period 1981-1984, imports of textiles and apparel have grown at an annual rate of 19%. In 1984, imports soared 32% over the 1983 levels. At the same time, the U.S. market grew a mere 1%.

Reality dictates that strong action be taken in an expeditious manner. I would urge this Subcommittee to note that a majority of both bodies supports this legislation and to act favorably in the near future.

COALITION TO PRESERVE INTERNATIONAL TRADE,
Washington, DC, July 15, 1985.

DEAR SENATOR/REPRESENTATIVE: The organizations and companies listed below, representing millions of American consumers, workers, farmers, exporters, and business people across the country, strongly oppose S. 680 (H.R. 1562), the Textile and Apparel Trade Enforcement Act of 1985.

S. 680 (H.R. 1562) is a bad piece of legislation. If enacted, it will seriously damage the American economy:

It will substantially increase the price of clothing. According to a study by the International Business Economic Research Corporation, the price of imported textile and apparel products will increase by as much as 30 percent. Many types of children's wear and low-cost clothing will become unavailable if this bill becomes law. Its impact will be felt most by those low- and middle-income families who can least afford increased prices of the clothes they need.

It will jeopardize American exports. The bill violates the Multi-Fiber Arrangement (MFA) and every bilateral textile agreement the United States, in good faith, has negotiated with our trading partners. It will set draconian quotas on a unilateral, non-negotiated basis which will force our trading partners to retaliate. Exports of farm products, high technology, services and heavy machinery will be most heavily hit. The enclosed list shows just what this bill will do to the textile exports of twelve of our major trading partners.

It will cost American jobs. Because our trading partners will retaliate, and consumer prices will increase, this bill will actually reduce the number of employment opportunities in retailing, importing, exporting, farming, shipping, banking and manufacturing.

The bill is a dangerous and far too narrow way to address the present international trading difficulties of the United States. It fails to recognize that these difficulties are part of a larger economic picture and must be addressed in an equitable fashion.

For these reasons S. 680 (H.R. 1562) is wrong for the country and we urge you in the strongest terms possible to oppose it.

Sincerely,

Enclosure.

Abacus Group of America, Inc.
Adventure International Corporation
American Association of Exporters and Importers:
  Textile and Apparel Group
  Footwear Group
American Business Conference
American Clearwater
American International Automobile Dealers Association
American Kynol Inc.
American President Lines, Ltd.
American Retail Federation

American Shipping Co., Inc.
American Soybean Association
Amshico Corporation
Associated Merchandising Corporation
Association of General Merchandise Chains, Inc.
Authentic Imports
Automobile Importers of America
B. Teller Corporation
Baby Togs Inc.
BATUS Retail Group
Bill White, Inc.
Boston Trading Ltd. Inc.
Boys Tone Shirt Company, Inc.
Brad Markoff Industries, Inc.
Byford Imports, Inc.
Choozie Wear Corporation
Chori America, Inc.
Ciao Sport Ltd.
Chutes Corporation
Contitrade Services Corporation
Cost Plus Imports
Consumers for World Trade
County Seat, Inc.
Dimension Specialty Company
E.S. Luther, Inc.
Edison Brothers Stores, Inc.
Enesco Imports Corporation
Enro Shirt Co.
Esprit de Corp.
Evans, Inc.
Federated Department Stores, Inc.
Fingerhut Corporation
Frederick Wholesale Corporation
Free Trade Alliance—Citizens for a Sound Economy
Fun World
Garcia Trade Services, Inc.
Genehis Khan Freight Service Inc.
Generation One APP
Generra Sportswear
General Mills Retail:
  Izod Lacoste
  Ship n' Shore
  Talbots
  Eddie Bauer
Gladish & Associates
Guy Laroche Boutique
H. Baley International, Ltd.
Hampco Apparel, Inc.
Harcrest International Ltd.
Heirlooms, Inc.
Henrichs & Associates, Inc.
Henry-Richards Co., Inc.
Hiraoka New York, Inc.
Hohenberg Company, Inc.
Imperial Children's Wear, Inc.
Irving B. Reder & Company
Irving R. Boody & Co., Inc.
J. Coty Messenger Serivces, Inc.
Jackson Fabrics Associates, Inc.
Jacques Moret Inc.
Jessie M. Paxton, Inc.
Jody International Inc.
K & J Inc.
Knitastiks Inc.
K mart
Langfelder, Homma & Carroll, Inc.
Laura Accessories, Inc.

Laura Ashley
Leisure Luggage, Inc.
Lenonard Feinberg, Inc.
Long Beach Import/Export
Louis Gregory Corporation
Lubman & Co.
Lykes Brothers Steamship Company, Inc.
Magid Glove & Safety Mfg. Co.
Marisa Christina Inc.
Marquesa International Corporation
Maryland Port Authority
Midway Sales, Inc.
Morsly, Inc.
National Association of Stevedores
National Association of Wheat Growers
National Corn Growers Association
National Customs Brokers and Freight Forwarders
National Grange
National Mass Retailing Institute
National Retail Merchants Association
Nelson Recreation Products, Inc.
Nktex Inc.
Nike, Inc.
O.F.I. Overseas Fashion Industries, Inc.
Peter's Bag Corporation
Popsicle Playwear
Prosperity (U.S.A.), Inc.
Quality Sports Products, Inc.
R. L. Pritchard & Co., Inc.
RRJ Industries, Ltd.
Retail Industry Trade Action Coalition
Rhone-Poulenc, Inc.
Roberts Incentives Corporation
S.M.L. Sport
S. Rimmer Company, Inc.
Saratoga
Sarne Corporation
Scope Imports, Inc.
Sea-Land Service, Inc.
Sea-Land Corporation
Segerman International
Shalom Children's Wear
Sigmatex, Inc.
Sirco International
Skiva International Corporation
Spiegal, Inc.
Stage II Apparel Corporation
Strategy Fashions, Inc.
Studio Workshop, Inc.
Styles By-Mr. C. Ltd.
Sutton & Sutton Ltd.
Tally-Ho Ind. & Sanroy Corporation
Taub, Hummel & Schnall, Inc.
Texsport
The Boeing Company
The Gap, Inc.
The Heartland Company, Ltd.
The Newman Importing Company, Inc.
UMI Collections Ltd.
United States Lines, Inc.
Victor B. Handal and Bros., Inc.
Warehousemen's Association of New York and New Jersey, Inc.
Washington Citizens for World Trade
Washington Public Ports Association
Waterman Steamship Corporation
Wells-Lamont Corporation
Wilder Imports, Inc.

York Luggage Corporation
Zayre Corporation

TEXTILE AND APPAREL TRADE ENFORCEMENT ACT FACT SHEET

Consumer Costs

The Reagan Administration estimates that the bill will increase consumer costs by an estimated $14 billion each year.

Prices for imported textile and apparel merchandise will increase between 15 and 30 percent according to a study by the International Business and Economic Research Corporation (IBERC). Overall prices will climb by 10 percent, according to the Administration, if the bill were enacted.

Job Effects

The bill will cost American jobs, according to the IBERC study. The bill will eliminate 62,000 retail jobs, according to IBERC. The same study indicates that the bill only creates about 70,000 textile and apparel producing jobs for a net gain of only 9,000.

The cost for each job created by the bill will be a whopping $1.5 million.

In addition to the jobs that would be lost in retailing, the bill will reduce job opportunities in importing, shipping, domestic transportation and export dependent industries.

Effects on Textile Exporters

The bill mandates unilateral imposition of quotas at levels much lower than those currently in effect as a result of 34 bilateral textile quota agreements between the U.S. and its trading partners.

Percentage reductions in textile shipments for the 12 largest suppliers:

Brazil 65; Hong Kong 12; Indonesia 85; Korea 33; Philippines 14; Taiwan 47; China 57; India 11; Japan 18; Pakistan 36; Singapore −9; and Thailand 55.

The bill will allow virtually no growth for other smaller supplier nations such as Israel.

Retaliation Against U.S. Exports

The Administration has identified three U.S. products that would be targets of retaliation: corn and wheat, accounting for $1.5 billion in 1984 exports to the 12 major nations listed above; aircraft, accounting for nearly $3 billion; and cigarettes and tobacco, accounting for $750 million.

Leaving retaliation aside, the bill will reduce by approximately $3.5 billion annually in hard currency which the twelve major exporting nations have available to purchase U.S. exports. In 1984, U.S. exports to these nations amounted to more than $50 billion.

Port and Shipping Effects

The value of textile and wearing apparel imports handled in 1984 by selected ports:

Seattle $2,554,635,000; Charleston, S.C. $489,209,000; Baltimore $84,518,000; Philadelphia $49,056,000; New York $1,859,067,000; Savannah $227,344,000; Tacoma $100,265,000; and Wilmington $25,102,000.

For every $40,000 in export orders lost as a result of retaliation, approximately one shipping or port job will be lost.

STATEMENT OF FROILAN C. TENORIO, RESIDENT REPRESENTATIVE TO THE UNITED STATES FOR THE COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Mr. Chairman and members of the subcommittee: Thank you for the opportunity to make these comments in opposition to the application of certain provisions of H.R. 1562, the "Textile and Apparel Trade Enforcement Act of 1985", to the Commonwealth of the Northern Mariana Islands (CNMI). While the bill has great value to the mainland textile and apparel industry, and I see the need for legislation to promote domestic production, it would reverse established territorial trade policy and would, if made applicable to the Commonwealth, have a profoundly-destructive impact upon our corner of the American economy.

Section 4(4) of the bill defines the term "country" to include "an insular possession of the United States." While the CNMI is not currently such a possession, we are in the process of becoming the newest member of the American political family pursuant to the "covenant to establish a Commonwealth of the Northern Mariana Islands in political union with the United States of America", Pub. L. 94-241. According to the provisions of that agreement, we are heirs to the bipartisan congressional policy of fostering the economic development of the territories through the provisions of General Headnote 3(a) of the Tariff Schedules. Were the provisions of this bill made applicable to the Commonwealth of the Northern Mariana Islands, access to the American marketplace for our textile and garment products would be virtually eliminated.

Until recently, the United States had actively promoted the development of a garment manufacturing industry in the CNMI, along with other industries taking advantage of the headnote 3(a) policy. Textile products of the Commonwealth were lawfully labeled as such and proudly identified as "Made in the USA". As long as it could be documented that the products derived no more than 50 percent of their value from foreign materials, they entered the mainland market duty-free and without quota. But the U.S. Customs Service has recently acted to override this congressionally-established policy. Last year's interim "country of origin" regulations provided that the products of our industry are no longer considered to be American products even when they derive more than half of their value in the Commonwealth.

H.R. 1562 would have an even more devastating impact on our industry if made applicable to the Commonwealth. All of the products of an insular possession would be treated as foreign, regardless of their local value content; and all would be subject to strict quota. The practical effect of these quota provisions, if made applicable to the CNMI, would be to eliminate the fledgling garment industry in our islands.

Section 5 of the bill establishes quotas calculated on a base year of 1984. This industry is so new in the Northern Mariana Islands that any quota based upon the 1984 statistics would be so low as to approach zero. Those companies that invested in the Northern Marianas would be forced to cut their losses and go out of business. Section 5 would also have the effect of drastically reducing the current quota established by the U.S. Customs Service for Commonwealth production in 1985. The current level has been established at a very modest 70,000 dozen. Section 5 would permit only 47,000 dozen, a reduction of 33 percent.

If made applicable to the Commonwealth of the Northern Mariana Islands, H.R. 1562 would have an extremely-adverse impact upon our small developing economy. Its provisions would result in treatment of Marianas' apparel products as foreign products, rather than American products. Aside from the negative effect this would have on the trade balance, the psychological effect on the people of the Northern Mariana Islands and prospective investors in the Commonwealth would be most unfortunate.

When our people voted in 1975 by a majority of nearly 80 percent to join the United States, we were promised U.S. citizenship and membership in the "American Economic Community". Thus far, citizenship has not been conferred, and H.R. 1562 would reverse more than 50 years of territorial trade policy to exclude us from the American economy.

It is especially sad to note that H.R. 1562 would disfavor the U.S. territories and insular possessions as compared to such fully-developed nations as Canada and the member nations of the European Economic Community as well as the countries of the Caribbean Basin Initiative.

For all of these reasons, I join with the representatives of the other U.S. territories in requesting the subcommittee to exclude the insular possessions generally from the purview of H.R. 1562. To include the Commonwealth of the Northern Mariana Islands in the quota provisions of this bill would be to exclude us from the full and fair participation in the economic life of the United States.

Statement of Sheldon L. Richman, Director, Free Trade Alliance, Citizens for a Sound Economy

Chairman Gibbons, members of the subcommittee, on behalf of the 50,000 members of Citizens for a Sound Economy, I ask the Subcommittee on Trade to reject further restrictions on textile imports. The subcommittee ought to seriously consider removing the burdensome web of import restrictions that already costs American consumers dearly and keeps the domestic textile industry from adjusting to changes in the world textile market. In other words, the subject of inquiry should be free trade, not protectionism.

H.R. 1562 is ill-conceived and rubs against every grain of free enterprise. The American economy became the envy of the world because it left freedom of choice in the hands of consumers. This prompted entrepreneurs to seek ways to satisfy consumers, and in the process they and American workers built the most advanced economy in history. But cause and effect cannot be reversed. It is only by leaving consumers free to buy from whomever they wish that we can have a thriving, growing economy that benefits everyone.

As Adam Smith noted long ago, the purpose of the economic system is consumption. A job is mere physical exertion unless it ultimately satisfies consumers. Consumers should have every right to buy at the best price they can find regardless of where the products are made. This not only lets consumers get the most for their money, it enables the economy as a whole to get the most out of the resources available.

Protectionism inevitably raises prices and squanders resources. This may be done in the name of saving jobs, but in the end protectionism destroys jobs and hurts everyone. A robust economy is in everyone's long-term interest. A stagnant economy will haunt the very people protectionist measures are intended to help.

Nowhere is this more apparent than in the textile and apparel industries. If the people advocating protection were correct, one should have expected those industries to have stopped seeking shelter from world competition long ago. In modern times the textile and apparel interests started asking for "temporary" relief in the 1930s. In 1935 Japan succeeded in selling a significant amount of textiles here despite an average 46-percent tariff on cotton goods and 60-percent tariff on wool and woolen goods. The result was a "voluntary" quota agreement forced on the Japanese by the Roosevelt administration. When Japan's textile industry rebuilt itself after World War II, so-called voluntary restrictions were again forced on that country. By this time the General Agreement on Tariffs and Trade had started to limit tariffs, so nontariff barriers were the alternative.

In the 1950s and 1960s, when Hong Kong increased its textile and apparel exports to the United States and refused to bow to American pressure for restraint, the U.S. government worked to get textiles exempted from the GATT tariff ceilings. This strategy ultimately triumphed. Then in 1974 the first Multi-Fiber Arrangement (MFA) was instituted to regulate world trade in textiles. Since then the MFA has become more restrictive.

Temporary relief has a way of becoming permanent and more stringent as time goes on. This has been our experience in the American textile and apparel industries. The excuse may change—low wages in foreign countries, subsidies to foreign industries—but the objective never varies: shelter from the consumers' freedom of choice. We can conclude that these industries do not wish to face the market without help from the U.S. government.

H.R. 1562 is more readily understood when seen in this context. Representative Jenkins' bill would roll back to 1983 levels imports from the 20 largest textile-producing countries. It would extend the quotas to a wider range of products. It would set up a special import-licensing system. It would limit the growth of imports to 1 percent for products that directly compete with American products and 6 percent with products that do not. What is that but a blatant attack on consumer sovereignty?

This legislation comes at an especially bad time. General protectionist sentiment is running high. As you know, there is discussion in Congress of a 20-percent import "surcharge," which could be a replay of the Smoot-Hawley Tariff of 1930. Further, the last few years have seen accelerated protectionism for American textile and apparel interests. In 1984 the country-of-origin rules were changed to further restrict consumer choice. In the last two years quotas have been imposed on 220 kinds of goods from 23 nations. H.R. 1562 is another sign of rampant protectionism that is headed on a collision course with the U.S. economy's recovery.

This bill will have the same adverse effects that all protectionism has. It will constrict consumer choice and force Americans to pay more for clothing. It will hurt American exporters—such a farmers—by reducing the purchasing power of foreign buyers. It will, of course, hurt the millions of Americans—retail employees, for example—who make their living selling imported clothing and textiles in the United States. Why should this multitude be sacrificed to a relative few whose industry cannot compete effectively?

H.R. 1562 would be nothing less than special privilege conferred on a small group at the expense of most of the American people and producers in Third World countries. The authors of the bill extol orderly markets and decry "disruption" from foreign producers. Let's examine these things. There is nothing disorderly about a rapid increase in imports, which, by the way, can be no more rapid than our consumers wish. It is presumptuous and arbitrary for anyone to dictate that imports should grow at some fixed rate. That is a matter for individual consumers to decide, and they should be outraged that others have arrogated to themselves the right to make that determination.

Moreover, "disruption" is the flipside of economic advancement. When Edison invented the light bulb, he disrupted the candle industry. When Ford mass produced the auto, he disrupted the horse and buggy industry. To protect an economy from this kind of disruption is to consign it to stagnation, which means unemployment and lost opportunity.

If we want to assure that today's American textile workers have a bright future, we must have free trade, for only then will the economy flourish and produce unimagined opportunities for advancement. Protectionism promises only the opposite: depression and unemployment. It cannot be in the interest of textile workers to be locked into stagnation. If adjustment to economic realty has to be made, it is better to know sooner rather than later. I do not wish to underrate the hardship on people whose jobs are jeopardized by the competitive market process. But that is not a problem peculiar to the foreign trade issue. Someone working in a textile mill in South Carolina can lose his job because of a superior production process elsewhere in the United States, or because consumer preferences change.

The best protection for people who are forced to adjust to new conditions is a thriving economy that vigorously produces opportunity. But we cannot have that without economic freedom, which includes free trade.

Throughout history, the greatest bursts of economic progress have followed periods of trade liberalization. These were not coincidences. We can have the same degree of progress again if only we learn the lessons of history and economic theory.

Thank you for this opportunity to address the subcommittee.

STATEMENT OF DEWEY L. TROGDON, ON BEHALF OF CONE MILLS CORP., AND THE AMERICAN TEXTILE MANUFACTURERS INSTITUTE, INC.

Last month, the President began his State of the Union address by recognizing the spirit of Americans building a strong economy through productivity, self-reliance and a new technology. Nowhere are these values more true than in the textile industry. For the past twenty-five years the textile industry has led the average U.S. manufacturing productivity growth rate by a wide margin. Today a single textile worker can produce enough products to meet the needs of over 300 people!

This record of productivity has not come easily. The textile industry has invested more than $1 billion on new plant and equipment in each of the last twenty years. Last year alone, the industry committed roughly $1.7 billion on new technologies.

At Cone Mills Corporation, we have invested over one-third billion dollars in the past decade and we continue to invest in state of the art equipment. And when it comes to commitment, there is none higher than Cone employees trying to build a stake in this economy through their ownership of our company.

Despite the industry's commitment to the ideals of productivity, self reliance and new technology, textile economies are not the glowing picture of health described in the State of the Union address.

In the Conference Board's latest survey of business expectations, an overwhelming number of the nation's executives report that industry conditions were substantially worse than six months ago, the majority of these executives expect future conditions to be even worse. In North Carolina, textile labor force unemployment is at 22 percent and in 1984, the number of textile workers losing their jobs almost doubled to over 6500.

The industry's problems are caused by the worst import assault in the history of the American textile and apparel industry. The stream of statistics is depressing: imports up 32 percent, the trade deficit up 53 percent, and the most frightening observation is that if imports continue their growth rates of the past two years, domestic manufacturers will be completely out of business by the end of the decade:

We in the textile industry are not alone in the import seige. The nations as a whole experienced a record trade deficit exceeding $120 billion in 1984. In manufacturing, seventeen of twenty industry groups ran trade deficits during the year.

Despite the nation's trade deficit problem, U.S. trade policy continue to be based upon "free trade" theories. These policies were relatively harmless when the U.S. had a small trade surplus, economists estimate however, that in the third quarter of 1984, the skyrocketing trade deficit knocked down U.S. economic growth rates from 5½ percent to less than 1½ percent.

Bureaucrats would like to excuse themselves from any responsibility for government actions by claiming that the deficit problem is a market problem. Four short years ago, however, the American textile industry had a trade surplus. At Cone Mills, exports accounted for one-third of our business in 1980 versus less than 5 percent in 1984. Since 1980, the value of the dollar has doubled in many of our textile markets, sharply reducing the competitive advantages of productivity gains we had amassed in the past twenty-five years. It is no coincidence that this disruption has occurred in an environment of sharply rising real interest rates resulting from tight monetary policy and record budget deficits. The President was on target when he remarked last Wednesday that the American taxpayer needs protection from government. In the case of the textile industry, that protection so long overdue.

Our government must also step up to its responsibility of ensuring that domestic producers are not damaged by unfair trade practices by foreign countries. Access to foreign markets is limited by government regulation and government control of business decisions. It has been widely publicized that foreign governments directly subsidize their companies—often to the extent that manufactured goods sell for prices below raw materials costs. But very little is ever said regarding pricing policies of non-market economies. For instance, a Chinese worker earns 26 cent per hour, not because of labor supply and demand, but because that is what the central government has decided. The price of fabrics is also dictated by the central government. So if China wants to raise hard currency with cotton fabrics and garments, it can raise domestic prices and cut import prices. My point is that our free trade policies don't recognize these differences.

But as we have brought these considerations to government attention, and requested common equity, we have learned that U.S. textile trade policy is not based on the needs of U.S. citizens.

The fact is that the U.S. has a fragmented approach to dealing with trade inequities. In the high profile industries of steel and automobiles, import market share is controlled. Meanwhile, the plight of the textile and apparel industries has been ignored because, as one Washington staffer put it, those jobs are not located in a high profile geographical area.

As compared with other manufacturing industries, textile and apparel companies employ two and half as many people as the auto industry, and eight times as many employees as the steel industry. In regards to the dollar value of the trade deficit, the textile and apparel industries deficit is eighty percent higher than the steel industry. I believe that any objective review of these facts would conclude that U.S. policymakers have shortchanged the fiber/textile apparel complex.

In his State of the Union address, the President remarked that minorities would not be free until they participate fully in the economy. The government's answer is to create tax exempt free enterprise zones. But in this context, it is wasteful to let textile jobs flow offshore since the textile industry employs a much higher percentage of women and minorities than the manufacturing industry average. Furthermore, it is a disgrace for bureacrats to point to the rapid growth of service industry jobs to replace lost manufacturing jobs.

I can speak first hand about seeing $6 and $7 per hour textile jobs lost offshore and former employees having to settle for $4 an hour jobs and low benefits in the service industries. If as a nation we ever expect to earn our way out of these staggering budget deficits, we have got to realize that we won't do it by exporting $6 and $7 per hour skilled jobs and replacing them with $4 per hour unskilled jobs.

The President ended his State of the Union address with a call for increased volunteer effort to improve the quality of American life. Here in North Carolina, a good deal of the quality of life depends upon the taxes, contributions and voluntary efforts of the state's quarter million textile employees and rough $4 billion wage base. On the local level, in my home county of Guilford, there are 21,000 textile and apparel employees with an annual payroll approaching $400 million. It is not uncommon for the textile industry to generate 30 to 50 percent of a local community's United Way budget. It is unfortunate that these considerations are lost in the trade deficit and unemployment statistics.

So far, I have confined my remarks on the textile trade deficit to the industry and local communities. But the reverberations of the textile trade deficit threaten a broader cross section of the American economy. To agriculture it means potential lost sales of 5 million bales of cotton and 200 million pounds of cornstarch. To electricity consumers in the Carolinas it means higher rates since the textile industry accounts for the utilization of about 20% of power plant capacity.

In 1984, bank failures reached levels not seen since the days of the great depression. Much publicity has been given to the exposure of U.S. banks to foreign loan losses. But the most overlooked banking issue today is the risk of U.S. banks on heartland. I am convinced that these loans and our ineffective trade policy have combined to produce a volatile situation.

I believe that H.R. 1562, the Textile and Apparel Trade Enforcement Act of 1985, is a sound beginning for a fair and effective national trade policy for textiles and apparel. It should be passed and, together with its companion bill in the Senate (S. 680), implemented immediately.

After all, the President said that one of the goals of the administration is to protect taxpayers from government. We need protection from budget deficits, high interest rates, an overvalued dollar and an inconsistent trade policy.

CROWN TEXTILE CO.,
Talladega, AL, April 3, 1985.

HON. BILL NICHOLS,
U.S. House of Representatives, Rayburn House Office Building, Washington, DC.

DEAR CONGRESSMAN NICHOLS: We feel that it is imperative that Congress move immediately to address the very serious problem of imports and their devastating effect on the textile and apparel industry that is so important to the State of Alabama. Our industry can be decimated, and I ask that you focus your best efforts on finding some solution to the problem.

There are, of course, a number of factors that accentuate the severity of the problem. The effect of the budget deficit and high interest rates on the value of the dollar are major causes of the problem, but so is insuring that fair trade be "fair" and not just "open." We feel little effective action is being taken in these areas and that the situation is progressively getting worse.

I am sure that you are aware of the number of jobs that have been lost in Alabama and throughout the textile producing states. The effect of it is being felt in other industries that supply the textile industry and it is having a rather harsh effect on smaller communities that are so dependent on textile and apparel jobs. All of this is happening in a period during which many areas are unable to develop new employment opportunities to replace the thousands of jobs being lost in the textile and apparel industry. The ability of local governments to provide needed services is, of course, being dramatically affected. We are fearful that this too will accelerate.

It is our employees and the many thousands of others in our industry in Alabama who will be counting on your help to see that action is taken to preserve their jobs. I know that we can rely on you to see that something is done and to see that our concern is brought to the attention of the Trade Subcommittee of the House Ways and Means Committee.

Sincerely,

LELAND E. BURNS,
Vice President, Manufacturing.

STATEMENT OF HON. BARNEY FRANK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MASSACHUSETTS

Mr. Chairman, first, I would like to thank you on behalf of the thousands of hard-working textile workers in southeastern Massachusetts for addressing the critical trade situation that is threatening their livelihood. As a representative of part of this textile manufacturing area, an Executive Board member of the Textile Caucus and a cosponsor of the Textile and Apparel Trade Enforcement Act of 1985, I appreciate your efforts and for giving me the opportunity to present my views.

In my opinion, the most frightening aspect of our current trade crisis is the fact the President refuses to acknowledge that a problem exists. Because of the intricate nature of trade negotiations, Congress has granted significant discretion to the Executive in trade laws. Ideally, the President should use the flexibility provided by Congress to work for the interests of domestic industries, while maintaining, to the degree possible, contructive and mutually beneficial relations with our trading partners. Unfortunately, by its inaction, the Reagan Administration has failed on both counts. I commend you, Mr. Chairman, for responsibly stepping in to provide the kind of leadership that is so lacking in the executive branch.

As a labor intensive industry, textile manufacturing is especially vulnerable to unfair competition from countries where subsistence wages are paid to workers for products that are in high demand in the United States. We, in the Textile Caucus, have seen this crisis growing over the years and have offered fairly moderate proposals to insure proper labelling, maintain compliance with the Multi-fiber Agreement and fight unfair trade practices. Regretfully, while some of these proposals have been implemented and have had some salutory effect, the flood of imports has continued to grow tremendously. It seems that not a month goes by that does not produce new record textile imports. It is time for us to say "Enough."

Mr. Chairman, this is clearly not an industry whose wages have been excessive. Congressional Research Service reports that textile workers earned 56% of the average for manufacturing workers. This amounts to the lowest total compensation of any manufacturing industry. Thus, labor costs are not the problem. What is needed to restore the competitive posture of the industry is an increase in productivity, which will require significant capital investment. Labor is committed to cooperate with management in this regard. It is difficult, however, if not impossible, for an industry to make these necessary expenditures when it is being inundated with cheap competition from abroad that is eating away at its market. I believe that we have reached a point where the textile and apparel industry needs and deserves some protection. The Textile and Apparel Trade Enforcement Act will stop this deteriorating situation and give our domestic producers an opportunity to modernize. I urge the members of the subcommittee to report the bill favorably.

STATEMENT OF HON. RICARDO J. BORDALLO, GOVERNOR, TERRITORY OF GUAM

On behalf of the people of Guam, I would like to thank you for the opportunity to submit written testimony on H.R. 1562, on a matter of extreme importance to the Guamanian people.

At the outset, I would like to strongly contest Bill H.R. 1562 which classifies Guam as a Foreign country. The people of Guam adamantly and proudly state that we are Americans, U.S. citizens. We are American in every sense of the word, by custom, by laws, by values and government. As Guamanian Americans, we have proven our loyalty and allegiance to the United States as much as any other American citizen in the state of the Union. Our men have died in battle for the freedom of America and democracy in World War I, World II, the Korean War and Vietnam. Today, we continue to make sacrifices to the defense of America by having more nuclear warheads per square mile than any state in the Union. One third of the U.S. territory of Guam is used for defense and federal purposes. As loyal Americans we have made sacrifices in the past and so shall we quickly rise to make sacrifices for the good of the U.S. of which we are an integral part of.

It is most disturbing if not insulting to the people of Guam who are loyal Americans to be treated like to foreign country. H.R. 1562 states that Guam is to be classified as a foreign country for the purposes of textile imports. As a foreign country we are not to be properly accorded the same treatment as a state of the United States. Neither are we to be given more favorable treatment than the countries cited in this Bill. Instead, other countries who are not even part of the U.S., whose inhabitants are not American citizens are to be treated more favorably than the people of Guam.

Canada and the EEC countries are to be generally exempted from the impact of this legislation. The Caribbean Basin Initiative Countries and Mexico are to be specifically exempted from the quotas to be imposed by the legislation. They are exempted because of the recognition of these nations special relationship to trade and the interests of the United States.

The people of Guam do not question the need to create special exceptions for countries who have a special relationship with the U.S., but what about Guam and the other insular possessions who have more than *just* a special relationship with the U.S., but who are part of the U.S. If the intent of this legislation is to begin taking care of the Industries at home in the U.S., this legislation outrageously ignores the fact that Guam and the other U.S. insular possessions are part of the U.S. Furthermore, it masks its eyes to the economic catastrophe it would have on the embryonic industries on Guam. I must stress again that we are as American as any American residing in mainland U.S.A. We are not foreigners.

The effect of the legislations on the U.S. territory of Guam is catastrophic. It would kill Guam's only textile industry, Sigallo Pac, Inc., which employs more than 275 American employees. Sigallo Pac, Inc. represented a light in the tunnel to the Guamanian people. It was the very first light manufacturing industry to take a chance on America's most distant territory in the Pacific. As proud Americans, we wanted and needed light manufacturing industries to provide employment and diversified economic base. We cared not then, nor now for federal doles. Until Sigalo, however, we were unsuccessful in doing so. Sigallo took that chance investing millions of dollars and hiring local Guamanian Americans. It only took that chance because we were an American territory and because of the favorable provisions of Headnote 3a, which permitted them to ship sweaters manufactured in Guam without quota or duty.

Headnote 3a regulations specifically recognized Guam and the other insular possessions unique relationship to the U.S. In enacting General Headnote 3a of the Tariff Schedules of the United States (TSUS), Congress recognized the need for special treatment for products of the insular possession. The Headnote 3a program was established to attract businesses to come to the insular possessions, thus creating jobs and revenue from local taxes. Congress knew that Guam's economy needed and deserved special consideration in view of its relationship to the U.S. Pursuant to this tariff provision, specific country-of-origin rules were developed for products of the possessions. The country of origin rules defined by H.R. 1562 repeal these special congressional rules and contradict other tariff preferences benefiting the insular possession.

Pursuant to H.R. 1562, Guam would be allowed to ship to the U.S. only 6,720 dozen sweaters. Last year alone, Guam 's only textile industry shipped 140,000 dozen sweaters to the U.S. If it were not for the implementation of the new country of origin rules set forth in Interim regulation T.D. 84-171, Sigallo Pac would have been able to ship 160,000 dozen sweaters. H.R. 1562 and its Senate counterpart S. 680 would devastatingly reduce the numbers of sweaters that could be shipped to the U.S. The consequences being that Guam's only textile industry would be forced to close its doors, lay off its 275 employees, deprieve Guam of a much needed source of revenue, and more importantly, dampen any other U.S. business notions of coming to do business in Guam.

It has been like swimming against a tidal wave in our attempts to establish a viable business atmosphere on Guam. We must attempt to compete against other Asian and Pacific markets while being subjected ofttime inappropriately to U.S. laws, standards, regulations and requirements. If I may add, rules and regulations which lack consistency, stability, and fail to recognize the unique geographical and economic realities of Guam. In just the last few years, Guam has repeatedly had the rug pulled out from its economic development plans by precipitous federal actions which nullified our attempts to develop a watch-making industry, to promote Guam as a center for international finance companies, and for intermediary financing activities. Federal authorities tell us over and over again to develop our own industry and not to reply on federal handouts. Yet when the opportunity is present for the development of industry on Guam, all too often short-sighted and arbitrary federal actions prevent us from even getting started or stop us once we have. For purposes of the Jones Act, we are domestic. For purposes of telecommunication we are considered foreign. We are classified as different purposes as foreign or domestic, seemingly when it is to our economic disadvantage. H.R. 1562 continues in this regard by classifying us as foreign, while simultaneously treating foreign countries better than Guam and the other U.S. possession.

If barriers are to be erected against foreign countries to U.S. markets to protect U.S. textile industries and American jobs, I must stress that Guam is a U.S. territory which also has American jobs at risk. If this Committee is to favorably report a Bill that protects American jobs and industries, then it must by moral imperative protect the jobs and the single industry of Guam and the other insular possessions. More importantly, if this committee is to favorably report a bill which recognizes the special interests the U.S. has with foreign countries such as Canada, the EEC, Mexico, and CBI countries, then by the U.S.'s legal, moral, ethical and political relationship to its U.S. territories the U.S. ought to give at least as equal treatment to its U.S. insular possession. We are after all Americans.

Guam and the other possessions are not colonies. We are not a foreign country. We are politically, economically and socially part of the U.S. and we ought to be treated as such.

In conclusion, Guam and the other insular possessions have been inappropriately defined as foreign for purposes of H.R. 1562 and its Senate counterpart, S. 680. If the U.S. is to recognize the special relationships it has with identified countries in this legislation, then by moral and political imperative it ought to recognize the fundamental relationship it has with Guam and the other U.S. insular possessions.

Furthermore, consistent with the policy and intent of this legislation to protect U.S. jobs and industries, Guam and the U.S. territories should be deemed as an integral part of this interest.

In light of the above, the Government of Guam urges that Guam and the U.S. Insular possessions be classified as a "state" of the United States for purpose of this bill, and all other laws, rules, and regulations in regard to imports to the United States in accordance with the spirit and intent of Headnote 3a; Or that Guam and the other U.S. insular possessions be specifically exempted from the requirements of H.R. 1562 and its Senate counterpart S. 680, and all other laws, rules, and regulations pertaining to quotas to the United States in accordance with the spirit and intent of Headnote 3a.

Thank you for the opportunity to submit written testimony.

HARTWELL, GA.

Mr. DOWLEY: I am a textile worker in Hartwell, GA.

Sir, I have dedicated 16 years of my life to the textile industry. I have a wife and two daughters who depend on me for their life. I in turn depend on the textile industry for all of us. I hope that something can be done for the textile worker of this country. Laws should be passed to help limit the imports coming into this country, so that decent, hard-working people who are trying to support themselves can continue. At least give us a chance.

Sincerely,

JERRY C. HARRIS.

STATEMENT OF JOHN R. MEINERT, VICE CHAIRMAN OF HARTMARX CORP. AND HART SCHAFFNER & MARX, AND PRESIDENT, CLOTHING MANUFACTURERS ASSOCIATION

Hartmarx's corporate headquarters are in Chicago, and its subsidiaries operate 33 manufacturing plants and 460 retail stores employing 25,000 men and women throughout the U.S.

As the representative of one of the nation's oldest, largest, and most respected apparel companies and as a leader in the tailored clothing industry, I urgently request your support of this legislation.

My company, which will celebrate its centennial in 1987, has sales of over $1.1 billion annually and 25,000 employees about equally divided between manufacturing and retailing. Most of our production is sold to independent retailers, and our stores sell the apparel we manufacture as well as hundreds of millions of dollars of goods purchased from other manufacturers. Our company has an international marketing perspective in both manufacturing and retailing, ranging from our worldwide selection of goods and designs for our customers to receiving millions of dollars annually from international licensing.

As a major presence in the apparel industry, Hartmarx shares this committee's interest in promoting a balanced economic perspective on the issue of imports.

As a manufacturer, we provide retailers with Hart Schaffner & Marx, the nation's foremost brand of tailored clothing, and with many other brands such as Hickey-Freeman, Christian Dior, Jack Nicklaus, Austin Reed of Regent Street, Johnny Carson, and Pierre Cardin—all "Crafted With Pride in U.S.A."

As a retailer, we provide the best fashions for American business and professional men and women.

In acquiring our global view of imports, we have many views that we wish to share with you and your colleagues.

Hartmarx does import some goods from abroad. However, the thrust of our importing—and that of others who share our view—is to provide the American consumer appropriate access to fashion, quality, and choice in apparel. The legislation before you is, in our view, adequate to assure the continuation of this intention among conscientious apparel retailers in this country.

What must be emphasized most strongly is that the absence of this legislation is an open door for retailers and importers of lesser intentions—and the effect will be to sacrifice the production and economic well-being of American apparel workers to their competitors in low-wage countries.

It is no secret that a big attraction of cheaper imported goods is the exceptional mark-up available to be taken by retailers. It is argued that such low-base pricing is passed on to American consumers through lower prices. That argument has been demonstrated incorrect. The high margins available on these imported goods are used to benefit those who import them, as the differential is retained by the importer-seller. The American consumer does not receive lower prices, and we know this to be true from our information about companies which compete in our retail markets.

If this committee accepts misrepresentations in the name of consumer benefit, the consequence will be distortions in trade, substantial sacrifice of American competitiveness, and potential devastation for hundreds of thousands of American workers and their families.

My company's experience as a manufacturer of apparel illustrates the importance of the point I raise. Among the 12,500 people we employ in our factories, many are first and second generation Americans who lack the language and skills to participate in other sectors of our economy. Employment in apparel manufacturing has been *the* means by which generations of new Americans have raised themselves from conditions they fled, and that remains the case today, as our industry represents an opportunity for those who have chosen this nation for their future and the futures of their children.

Whether you visit our factories in the North or the South, in Chicago, Buffalo, or Miami, we—and other manufacturing companies—have provided and are providing jobs, benefits, and dignity for Americans whose origins were in scores of other nations. These people are participating in the American heritage. That heritage and its opportunities will be denied without the assistance of the measure before you, and it would be ironic to penalize our fellow citizens by providing additional economic benefits to the countries they left.

Defeat of this legislation will seriously hamper employment for those currently employed in apparel manufacturing. As president of the Clothing Manufacturers Association, I can testify that the number of workers employed in clothing manufacturing has declined by half over the past decade. This declining trend will continue unless you and your colleagues pass this measure. It is likely—if the historical trend is permitted to prevail—that apparel manufacturing can cease to exist as a viable industry in this country and American companies will find themselves marketing the production of other countries.

The potential for damage is not only particularly acute in our large industrial cities but also in many small towns throughout the country.

For example, in addition to operating stores in over 80 percent of the states and selling to independent retailers everywhere, we also operate plants in about 30 communities. About two-thirds of these are in small towns, and the remaining are substantial employers in larger cities, as we have manufacturing plants in one-third of the states. Many of our manufacturing facilities are the principal employer in areas ravaged by industrial rerationalization.

While we employ over a thousand workers in each of our large Buffalo and Rochester, New York, plants and in Chicago, we also employ several hundred to over a thousand workers in states such as Florida, Georgia, Alabama, Arkansas, Missouri, both Carolinas, Virginia, Indiana, Maryland, Kentucky, Tennessee, Ohio, Pennsylvania, and California.

In the Quad Cities area of Iowa and Illinois, for example, our manufacturing facility is a principal employer in an area that has lost hundreds of jobs through the decline of farm equipment manufacturing. Without our presence, many important areas of the American heartland—already badly hurt by declining farm markets—would be virtually without a major employer.

But even if we move our attention from such cases, it should also be recognized that apparel manufacturing jobs employ thousands of women who in many cases are the sole support for families plagued by structural unemployment. Of the approximately 12,500 total employees in our manufacturing operations, almost 10,000 or close to 80 percent are women. We provide the underpinning for the maintenance of their families, and we give marginally employable but earnest workers the skills to pursue a lifetime of employment.

Hartmarx is not alone in the manner by which we contribute to the economic stability—if not survival—of these citizens, their families, and their communities. The clothing manufacturing industry as a whole likewise services this vital economic function. This important American industry needs the legislation before you. Hundreds of thousands of your constituents need it. I urge you to act decisively in assuring its passage.

STATEMENT OF GOV. GEORGE R. ARIYOSHI, STATE OF HAWAII

I am concerned that the Textile and Trade Enforcement Act of 1985, presently under consideration by the House Committee on Ways and Means, will have a direct and adverse effect on the Hawaii garment industry, the state of Hawaii, and the U.S. territories in the Pacific.

The Hawaii apparel industry is a unique and integral part of Hawaii's economy. It is closely linked with Hawaiian tourism, the state's top industry. "Island wear" has developed and flourished with the state's visitor industry. Since statehood, visitor expenditures on Hawaii clothing and accessories have increased at the same rate, or nearly the same rate, as total visitor expenditures. Clothing and garments are an important segment of the visitor market basket of goods and services. In 1983, for example, visitor expenditures on clothing and accessories totalled $417.8 million, a very significant sum.

Hawaii had four times as many visitors in 1983 as residents. Expenditures per visitor per day average $90 for west-bound visitors (i.e., mainland U.S.). Hawaii's Japanese visitors spent $234 daily, or as much as two and one-half times more than their west-bound counterparts. Thus, the apparel industry in Hawaii contributes favorably to the U.S. balance of trade as foreign visitors spend their money and carry (U.S.) Hawaii-made garments home.

The Hawaii garment industry, from its very beginning, has depended on imported textiles. The quality of prints, colors, and the prices and special screened fabrics used are available from only a few domestic mills and are not produced in sufficient quantities for the Hawaii industry.

Hawaii's apparel and textile business consists of 138 establishments which purchase about $46.7 million of materials annually. Although textile fabrics and products landed in the port of Honolulu in 1983 are valued at $26.5 million, this figure does not completely convey the importance of Asian fabrics to the Hawaiian industry, since much of the fabrics which Hawaii brings from the mainland were first imported from Asia.

The proposed quota rollback under the Textile and Apparel Trade Enforcement Act of 1985 will reduce the total amount of imported textiles needed to maintain Hawaii's current production. As much as 64 percent of the materials used by Hawaii's manufacturers come from foreign countries, either directly or indirectly through domestic fabric houses. Only 13 percent of the dollar value of imports would not be affected by the proposed legislation since restrictions under the measure would apply to exporting countries other than Canada, the Caribbean region, and European Economic Community member states. Thus, the legislation will create a bias against those garment manufacturers with established connections to, and dependence on, Asian textile producers and favor those garment manufacturers buying from Europe and the Caribbean.

The textile quota bill would impose punitive actions against Asian nations and even our territories in the Pacific. To impose such a quota would do significant damage and further add to the area's political insecurities. The Soviet Union has moved closer to completing its first fishing rights agreement with a Pacific island nation. Dissolution of the ANZUS Regional Security Treaty has upset regional harmony, and the proposed textile bill would unfairly focus its action on one area of the world.

It is unfair and unreasonable to single out Asia as the cause of the textile deficit. The increasing market share of textiles from Asian countries could be resolved through negotiations without penalizing those segments of the U.S. garment industry which rely on Asia's unique brand of textiles.

If enacted, this bill would violate U.S. obligations under the multi-fiber arrangement and undermine the basis of the present open multilateral trading system.

Protectionist legislation, which limits the importation of foreign products, cannot cure the over-valuation of the dollar or the lack of international competitiveness.

As I have indicated, our apparel industry is an important part of the entire Hawaii vacation experience. Tourism has become one of the world's best growth industries, and the competition for the international tourist dollar becomes keener each year. While Hawaii imports textiles from the Asian nations, the state produces the wearing apparel which is sold in Hawaii and carried to every nation of the world. Our apparel industry is a positive factor in correcting the imbalance of trade. This bill will penalize the fastest-growing region in the world, an area where we should be more aggressive in pursuing markets, not more regressive in jeopardizing our trade interests with Pacific and Asian nations.

In addition, it is incomprehensive to me that the U.S. territories under this proposed act are classified as foreign countries and receive less favorable treatment than Canada, member states of the European Economic Community, or countries eligible for designation as beneficiaries of the Caribberan Basin Initiative. Pacific territories have looked at apparel manufacturing and textile operations as part of their future economic independence. In addition to treating U.S. territories as foreign countries like Hong Kong or China, the act provides an import licensing program that is to be the first of its kind. Any textile importer, however small, would be required to obtain a license from Washington, D.C. The Commerce Department is not set up to handle this program and it would be very burdensome on small potential importers from our distant Pacific territories.

In conclusion, I urge the committee to reject this legislation.

STATEMENT OF THE HEADWEAR INSTITUTE OF AMERICA

EXECUTIVE SUMMARY

H.R. 1562 is the only vehicle to improve the ineffective administration and enforcement of the Multi-fiber Arrangement (MFA)

The domestic headwear industry has attempted to work within the MFA to obtain proper relief from market-disrupting, and in some cases illegal, imports of headwear, but has been extremely dissatisfied with the results obtained under the Multi-Fiber Arrangement (MFA), as it is currently being enforced. For this reason, the Headwear Institute of America (HIA) is supporting the passage of the Textile and Apparel Trade Enforcement Act of 1985.

The industry's frustration with the current system is best exemplified by one particular problem relating to imports of man-made fiber headwear. In early 1984, the U.S. Customs Service discovered that fraudulent imports of man-made fiber headwear from Taiwan and Korea were entering the United States with understated visa weights, thus circumventing the existing quota levels.

Customs halted this practice, but prior to its discovery such understating occurred in earlier years, resulting in substantial overshipments beyond legal quotas in these periods as well.

Beginning in March 1984, the domestic headwear industry urged the Committee for the Implementation of Textile Agreements (CITA) to quantify the volume of overshipments of man-made fiber headwear from Korea and Taiwan which occurred in earlir years due to understating and to deduct this quantity from current quota levels. Such compensation for fraudulent shipments is clearly required under the terms of our bilateral agreements, which were negotiated under the MFA.

In May 1985, more than a year after the initial discovery of this problem, the U.S. Government concluded final negotiations with the Taiwanese which resulted in the decision to allocate the total overshipments of 750,000 pounds. However, this seemingly reasonable response was gutted of any real impact when the U.S. Government allowed these illegal, fraudulent overshipments to be allocated to the Taiwan quota in equal amounts of 250,000 pounds over the next three years. The domestic headwear industry was outraged by this decision by the U.S. Government to stretch the "penalty" for Taiwan's overshipments over so many years, which is virtually meaningless for the Taiwanese and amounts to no penalty at all.

The U.S. action has in effect rewarded fraud and undermined both the effectiveness of the bilateral agreements and the perceived need on the part of foreign governments and industries to feel obliged to live up to the letter or spirit of those agreements.

To date, no action whatsoever has yet been taken by the U.S. Government with respect to Korea, which was just as guilty as Taiwan of understanding visa weights on man-made fiber headwear.

STATEMENT

The Multi-Fiber Arrangement and the bilateral agreements that the United States have negotiated under the MFA have been a miserable failure. They have failed to achieve their stated purpose—the prevention of market disruption in the United States. The central reason for this failure has been the ineffective administration of the bilateral agreements, including the constant failure of the United States to avail itself of the actions plainly allowed for in the MFA and the bilateral agreements. For these reasons, the Headwear Institute of America (HIA), a trade association representing domestic manufacturers of headwear, is supporting the passage of the Textile and Apparel Trade Enforcement Act of 1985.

The specific means through which this failure has occurred are well-known:

(1) The United States continually permits rapid surges in imports before any action is taken. Any restraints put into effect are based upon import levels after such surges.

(2) The United States allows flexibility in bilateral agreements that permit massive increases in imports above nominal restraint levels.

(3) Quota limits that are not filled in a given year are nevertheless allowed to grow constantly, thereby permitting huge surges.

(4) Despite commendable efforts by the Customs Service, fraudulent practices are rampant, which make a mockery of the bilateral agreements. Fraudulent actions include transshipments, false country of origin markings, false declaration to Customs of fiber content and other false declarations about the import shipments, smuggling of controlled products with shipments of uncontrolled products, false export visas, and many others.

(5) The United States continually negotiates agreements favorable to foreign countries despite heavy import penetration by all countries combined and intense cumulative market disruption.

These and other factors have combined to eliminate the effectiveness of the bilateral agreements that the United States spends much time and effort negotiating. In addition, the growing problem of fiber blends containing fibers other than cotton, wool, or man-made fibers, which technically remove products from the coverage of the MFA, have contributed greatly to the ineffectiveness of the MFA.

The problems are not abstract. They are directly reflected in the growth of imports of textiles and apparel of 25 percent from 1982 to 1983 and the 32 percent growth from 1983 to 1984. They are directly reflected in the hundreds of thousands of U.S. jobs lost during this time. They are reflected in the cumulative impact of hundreds of horror stories that can be told by the domestic industry.

The case of man-made fiber headwear is one such horror story. In fact, the experience of the domestic headwear industry with surging headwear and massive fraud perpetrated by foreign suppliers provides a microcosm, in all aspects, of the failure of the FMA, as it is currently being administered and enforced. This horror story has occurred despite the best efforts of the domestic industry to work within the best efforts of the domestic industry to work within the MFA to attain relief from market-disrupting, illegal imports.

The headwear story focuses on fraudulent shipments of man-made fiber headwear entering the United States from Taiwan and Korea. The weak, ineffectual response by the U.S. Government in the end rewarded the fraud that took place and gave one more signal to foreign producers that they could flaunt the MFA bilateral agreements with impunity.

In early 1984, the U.S. Customs Service discovered that man-made fiber headwear imports from Taiwan and Korea were entering the United States with understated visa weights. Such headwear entering from Taiwan and Korea is subject to specific quota restraints, which are expressed in pounds. Therefore, by understating the actual weight of the headwear being shipped to the United States, the Taiwanese and the Koreans were able to enter hundreds of thousands more dozens of headwear than was properly allowed under the quotas, thereby circumventing the quotas.

Following the discovery of this problem in early 1984, due to the diligent work of the U.S. Customs Service, man-made fiber headwear shipments from Taiwan and Korea with suspected understated visa weights were held up and not allowed to enter the United States until a proper visa weight was obtained from the foreign suppliers. Although proper charges to quotas have reportedly been made since the time of the initial discovery of the understated visa weights, evidence indicates that the practice may be continuing.

Domestic headwear producers were concerned about the damage caused by this fraudulent practice in earlier years, which had resulted in the shipment of substantial quantities of imports of man-made fiber headwear from Taiwan and Korea well above the allowed quota levels in these earlier years. Not only did the domestic industry feel that overshipments were occurring based on the quantity of imports flooding the market, but other independent evidence made clear that this fraud had been occurring for some time.

First, the poundage quotas were completely or almost completely filled by Taiwan and Korea in prior years. Second, publicly available information on the unit weights of imports from Taiwan and Korea show understating in these earlier years, as calculated from official U.S. import statistics. For example, the attached Tables 1 and 2 provide data on the unit weight (in pounds per dozen) for imports of man-made fiber headwear entering under TSUSA item 703.0500 from Taiwan and Korea into the Seattle and Los Angeles Customs Districts for full year 1982 and 1983 and monthly for the period October 1983–December 1984. The pounds per dozen ratios for 1982 and 1983 and early 1984 are well below the April–October 1984 ratios, by which time the problem had been discovered and proper weights were being charged. However, the lower ratios for imports from both Taiwan and Korea into the Los Angeles Customs District in November and December 1984 indicate that the understating practice may actually be starting again.

The trends described above are illustrated graphically in Charts 1 through 4; these charts show the ratios of pounds per dozen for imports of TSUSA item 703.0500 from Taiwan and Korea into the Los Angeles and Seattle Customs Districts for 1982 through 1984, based on half-year periods. These charts clearly show the dramatic increases in the pounds per dozen ratios in 1984 compared to the ratios evident in 1982 and 1983, following the discovery of the visa weight understating problem in February of 1984.

From March 1984 on, the Headwear Institute of America strongly and continually urged the Committee for the Implementation of Textile Agreements (CITA), which is the responsible government agency,[1] to quantify the volume of overshipments which occurred in earlier years due to understating and to deduct this quantity of illegal man-made fiber headwear imports from the current year's quota levels for Taiwan and Korea. Such a quota adjustment for fraudulent imports was not only called for under the terms of our bilateral agreements with Korea and Taiwan, but was the minimum action that should have been taken to maintain the integrity of the agreements and to discourage further fraud. A detailed chronology of the efforts by the domestic industry to obtain painfully slow U.S. Government response to resolve this problem, from early 1984 to the present, is provided in Appendix A.

It was not until a year and a half after the initial discovery by the U.S. Customs Service and constant urging by the domestic industry that CITA finally acted to resolve the problem with respect to Taiwan. To the utter dismay of the domestic industry, the ultimate result was a weak and ineffectual response by the U.S. Government.

During mid-April, 1985, consultations were held between the U.S. Government and the Taiwanese at which the clear evidence of visa weight understating was presented. CITA reported in the *Federal Register* of May 9 that the U.S. Government had decided to charge the calculated overshipments of 750,000 pounds to the current quota level for Taiwan, an acton which the domestic industry had been recommending since the problem first became known. CITA also indicated that this decision would hold pending the results of further negotiations which were scheduled for May 20.

In early June, the domestic industry was shocked to learn *from sources in Taiwan* that at the May 20 negotiations, CITA had backed off its original decision to charge the 750,000 pounds of overshipped headwear to the current year, and instead caved into the Taiwanese request to charge the illegal shipments in equal amounts of only 250,000 pounds in each of the next three years—1985, 1986, 1987. This reversal of the originally announced decision to charge all 750,000 pounds to the 1985 restraint level virtually gutted the remedy originally decided upon (after the delay of over one year) and amounted to virtually no penalty at all.

The domestic industry was told by U.S. Governmental officials that one reason for the decision to spread the calculated quota reduction over three years was that the Taiwanese had already allocated all of their 1985 quota and that the full charge of all illegal shipments to the 1985 quota would have therefore caused problems and inconvience to the Taiwanese. The domestic industry fails to accept that this inconvenience, no matter how great, has any relevance at all to a proper response to the years of systematic, fraudulent headwear shipments by the Taiwanese. The domestic industry, which was hurt by these illegal, fraudulent imports, was outraged by the final resolution of the problem with respect to Taiwan, particularly since the industry spent more than one year and an enormous amount of time and effort with the Executive Branch and on Capital Hill to have this matter looked into and resolved under the procedures available under the MFA.

To add insult to injury, it must be emphasized that no action whatsoever has ever been taken by the U.S. Govenment with respect to Korea, which was just as guilty as Taiwan of understating visa weights on man-made fiber headwear.

The pounds per dozen ratios cited in Tables 1 and 2 clearly indicate similar trends in these ratios for Taiwan and Korea, due to the similar pattern of understanding in 1982, 1983, and early 1984, followed by corrected weights beginning in April 1984 once the problem had been discovered by the U.S. Customs Service.

More direct evidence is contained in a June 1984 telex from a major Korean headwear producer and exporter, which explicitly describes the quota shortages of approximately 35 percent then being faced by the Koreans due to the enforcement of proper visa weights by the U.S. Customs Service. (See Appendix B.) The domestic industry has repeatedly provided the U.S. government with copies of this telex on several occasions, but to date, no action has been taken to adjust the Korean quotas for illegal overshipment of man-made fiber headwear in earlier years.

The outrage does not stop here. The events described above have not been occurring in a vacuum. While the domestic industry was waiting for the resolution of the problem of understated visa weights on man-made fiber headwear from Taiwan and Korea, these two countries were busy implementing additional ways of circumventing the man-made fiber headwear quotas.

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[1] The Committee for the Implementation of Textile Agreements is an interagency body comprised of representatives from the Commerce Department, the Office of the United States Trade Representative, the State Department, the Labor Department, and the Treasury Department.

For example, industry sources learned that in mid-1982, a new man-made fiber headwear operation was established in the Philippines; reportedly, all of the fabric and other raw materials are made available from Taiwan and are then assembled in the Philippines. The attached Table 3 shows that between 1979 and 1981, imports of these man-made fiber caps from the Phillippines were actually declining. In 1982, following the set-up of the new headwear operation supplied by the Taiwanese, imports from the Philippines rose by over 500 percent from the 1981 level and have risen in every year since that time.

Imports of man-made fiber headwear from the Philippines are currently covered under a quota for a very large "basket" category of products. Therefore, this operation in the Philippines, which is supplied with materials from Taiwan, essentially allows the Taiwanese to circumvent the quota on U.S. imports of man-made fiber headwear from Taiwan and ship additional thousands of dozens of caps to the United States. The domestic industry has requested that a separate quota be established on man-made fiber headwear from the Philippines in order to control this surge, and to prevent the Taiwanese from circumventing the quota on their shipments, but no results have been forthcoming.

Another means utilized by Taiwan and Korea to circumvent the restraints on man-made fiber headwear has been to change the fiber blend of the fabric in order to change the import classification from man-made fiber headwear to cotton headwear, which is not currently covered by quotas. This surge is shown by the data provided in the attached Table 4. Imports of cotton headwear from Taiwan rose steadily from only 5,154 dozens in 1981 to 1,218,404 dozens in 1984, and showed a 105 percent percent increase in the first quarter of 1985, compared to the same period in 1984. Imports of cotton headwear from Korea show similar trends, rising from 649,369 dozens in 1981 to 1,223,470 dozens in 1984, with a 101 percent increase in the first quarter of 1985. A large portion of these headwear imports allegedly of cotton is the same type of headwear formerly classified as man-made fiber headwear. The domestically-produced man-made fiber headwear is of the same type (primarily baseball/promotional caps) and competes directly in the marketplace with these "cotton" imports. Thus, the fiber distinction in this instance is irrelevant. Therefore, this surge in cotton headwear imports has been very harmful to domestic producers.

The domestic industry has repeatedly requested calls on these imports of cotton headwear, but CITA has insisted that, despite the incredible import surges, no domestic market disruption can be shown, so no action has been taken. The domestic industry does not understand how a lack of market disruption can be argued, given the magnitude of the import increases; total cotton headwear imports roee by 229 percent between 1981 and 1984 and these imports have had a dramatic impact on the market place. In the past year almost 20 domestic headwear plants located throughout the United States have ceased operations, largely due to competition from surging, low-price imports, (See Appendix C for list of plant closings.) In a recent study by the U.S. International Trade Commission, it was reported that imported baseball caps consistently undersold similar domestically-produced caps at the wholesale level by margins which rose steadily from 32 percent in 1982 to 49 percent in 1984.[1] The ITC also reported that the import penetration ratio for cotton and man-made fiber headwear rose from 57 percent in 1981 to 65 percent in 1983, followed by an increase to 71 percent in the period January-September 1984.[2]

To make matters worse, the domestic industry has recently learned that much of the cotton headwear which has been entering from Korea and Taiwan is actually man-made fiber headwear which is being misclassified. The industry has confirmed with U.S. Customs officials at the Los Angeles, Seattle, and New York Customs Districts that they have all discovered some instances of such misclassification. The industry has requested that these ports make a full investigation of the extent of this misclassification. If, as the domestic industry believes, this misclassification was rampant in earlier years prior to its discovery by the U.S. Customs Service in early 1985, then, like the understating of visa weights, this is another way in which the Taiwanese and the Koreans have managed to illegally ship man-made fiber headwear into the United States at levels well above those allowed by the mutually agreed-upon quotas determined by the bilateral agreements negotiated under the MFA.

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[1] "Certain Headwear Statisitical Report," Report to the United States Trade Representative on Investigation No. 332-190, USITC Publication 1697, May 1985, at page 12.

[2] "Certain Headwear Statistical Report," Report to the United States Trade Representative on Investigation No. 332-190, USITC Publication 1697, May 1985, at page 13.

The disruption to the domestic industry caused by these various practices of the Taiwanese and Korean headwear manufacturers has been compounded by the emergence of the People's Republic of China (PRC) as a major supplier of headwear to the U.S. market in recent years. The attached Table 5 shows the dramatic increase in imports of both cotton and man-made fiber headwear from the PRC in recent years. In 1984, the PRC was the largest supplier of cotton headwear to the United States; furthermore, in 1984 and in the first quarter of 1985, the PRC was the fastest growing supplier of man-made fiber headwear to the United States. The rapid emergence of a new market player of this size has further intensified the market disruption already being caused by surging low-priced imports from Taiwan, Korea, and other suppliers.

Thus, the experience of the domestic headwear industry encapsulates all of the many reasons which have prompted the introduction of S. 680 and the massive support which it has gathered. In trying to obtain redress for grievances through the channels offered by the MFA, the domestic headwear industry has been extremely frustrated by the slow and generally ineffectual responses of the U.S. Government. This problem is exemplified by the problem of understated visa weights on man-made fiber headwear from Korea and Taiwan, where delay between discovery of the problem and action by the U.S. Government was unconscionably long and the final result has been a weak "penalty" which effectively rewards the Taiwanese exporters responsible for fraudulent, illegal headwear shipments. Furthermore, no action has yet been taken by the U.S. Government to adjust the quota on man-made fiber headwear imports from Korea for illegal shipments from that country. The domestic industry has also been victimized by diversions of shipments through other countries and by shifts to other products, as Taiwan and Korea have attempted to end-run the quotas on man-made fiber headwear. The industry has also been hurt by fraudulent fiber misclassifications.

Therefore, due to the ineffectiveness of the MFA in providing relief for the import problems confronted by the domestic headwear industry, such as those cited in this statement, the HIA is strongly supporting the passage of the Textile and Apparel Trade Enforcement Act of 1985. This legislation offers the only viable means of correcting the weak and ineffective administration and enforcement of the MFA. The passage of S. 680 is necessary to achieve the goals for which the MFA was designed.

TABLE 1.—U.S. IMPORTS FOR CONSUMPTION OF HEADWEAR FROM TAIWAN AND KOREA UNDER TSUSA ITEM 703.0500 INTO THE LOS ANGELES CUSTOMS DISTRICT, FULL YEAR 1982 AND 1983 AND MONTHLY, OCTOBER 1983–DECEMBER 1984

	Taiwan			Korea			All other countries		
	Dozens	Pounds	Pounds per dozen	Dozens	Pounds	Pounds per dozen	Dozens	Pounds	Pounds per dozen
Full year:									
1982	1,092,103	1,195,453	1.09	233,849	329,073	1.41	72,252	119,013	1.65
1983	892,986	1,149,070	1.29	240,404	318,827	1.33	60,598	110,502	1.82
October 1983	71,171	98,560	1.38	27,225	37,377	1.37	7,259	12,982	1.79
November 1983	73,894	96,256	1.30	13,584	16,947	1.25	2,160	2,295	1.06
December 1983	56,193	75,322	1.34	20,569	26,914	1.31	0	0	...
January 1984	116,653	180,113	1.54	16,458	26,403	1.60	2,460	2,835	1.15
February 1984	60,202	85,654	1.42	7,242	9,771	1.35	9,487	16,883	1.78
March 1984	38,849	48,767	1.26	20,503	33,692	1.64	7,400	12,573	1.70
April 1984	84,568	139,296	1.65	23,892	42,179	1.77	7,092	12,029	1.70
May 1984	93,665	156,403	1.67	35,992	63,370	1.76	0	0	...
June 1984	53,315	88,938	1.67	24,960	44,741	1.79	11,844	19,637	1.66
July 1984	49,590	80,298	1.62	19,596	32,788	1.67	11,391	18,281	1.60
August 1984	28,541	44,452	1.56	13,008	24,984	1.92	7,763	12,410	1.60
September 1984	29,335	51,843	1.77	5,760	10,821	1.88	19,454	33,476	1.72
October 1984	7,442	12,277	1.65	4,068	7,729	1.90	25,176	45,834	1.82
November 1984	8,220	12,536	1.53	1,788	2,420	1.35	2,712	4,068	1.50
December 1984	5,858	7,522	1.28	15,840	21,439	1.35	3,335	4,784	1.43

Source: U.S. Department of Commerce data.

TABLE 2.—U.S. IMPORTS FOR CONSUMPTION OF HEADWEAR FROM TAIWAN AND KOREA UNDER TSUSA ITEM 703.0500 INTO THE SEATTLE CUSTOMS DISTRICT, FULL YEAR 1982 AND 1983 AND MONTHLY, OCTOBER 1983–DECEMBER 1984

	Taiwan			Korea			All other countries		
	Dozens	Pounds	Pounds per dozen	Dozens	Pounds	Pounds per dozen	Dozens	Pounds	Pounds per dozen
Full year:									
1982	238,677	267,702	1.12	509,104	705,312	1.39	5,316	12,227	2.30
1983	225,846	247,381	1.10	455,540	586,540	1.29	545	947	1.47
October 1983	17,514	20,165	1.15	28,644	36,220	1.27	0	0	....
November 1983	22,029	24,757	1.12	57,937	77,263	1.33	124	298	2.40
December 1983	25,208	26,312	1.04	21,490	29,209	1.36	0	0	....
January 1984	25,302	36,902	1.46	29,722	45,124	1.52	408	612	1.50
February 1984	216	240	1.11	30,100	40,684	1.35	0	0	....
March 1984	7,839	8,299	1.06	27,280	37,474	1.37	0	0	....
April 1984	10,383	17,562	1.69	62,207	108,480	1.74	0	0	....
May 1984	26,376	41,795	1.58	53,568	96,244	1.80	0	0	....
June 1984	11,033	17,428	1.58	51,592	94,905	1.84	0	0	....
July 1984	17,463	27,687	1.59	65,402	120,069	1.84	2,639	4,858	1.84
August 1984	29,354	45,493	1.55	47,724	87,915	1.84	144	231	1.60
September 1984	7,241	10,159	1.40	44,488	81,088	1.82	2,000	3,000	1.50
October 1984	0	0	....	25,828	45,190	1.75	3,459	4,456	1.29
November 1984	6,036	10,134	1.68	39,386	63,552	1.61	570	855	1.50
December 1984	764	1,146	1.50	25,548	47,015	1.84	0	0	....

Source: U.S. Department of Commerce data.

Chart 1

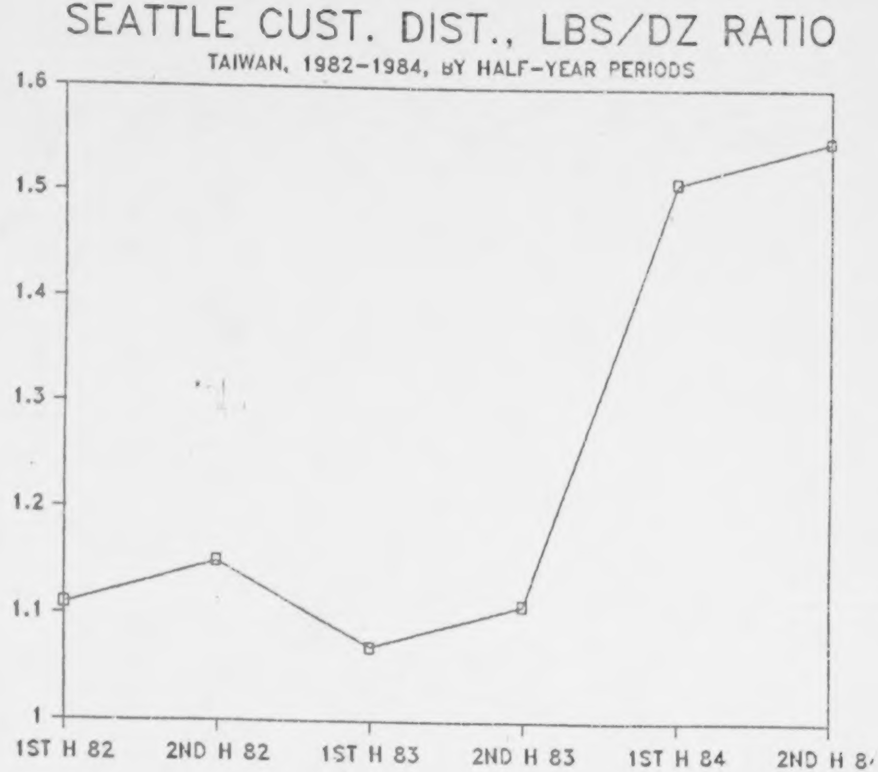
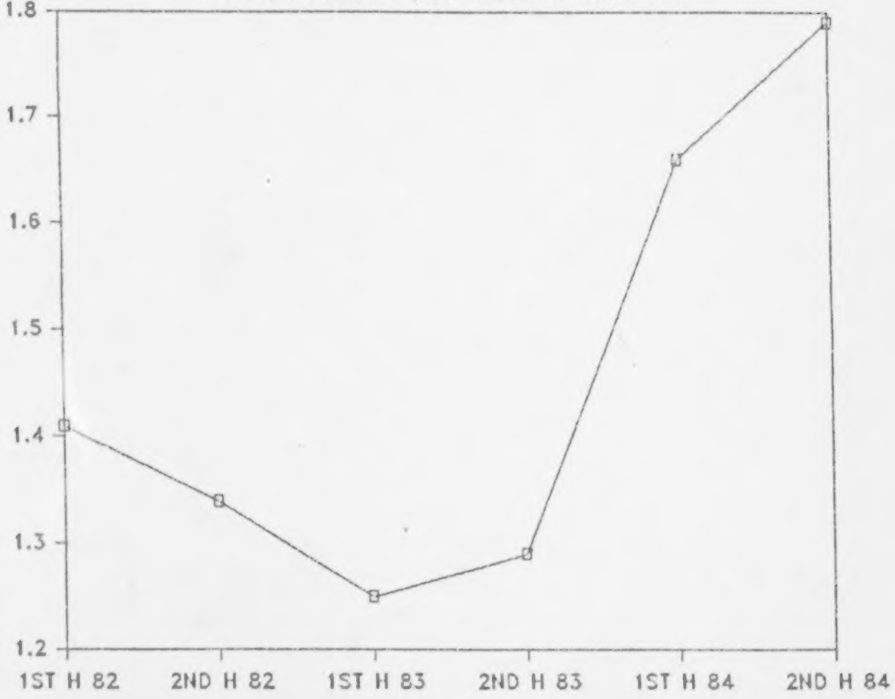

SEATTLE CUST. DIST., LBS/DZ RATIO
TAIWAN, 1982-1984, BY HALF-YEAR PERIODS
1.6
1.5
1.4
1.3
1.2
1.1
1
1ST H 82
2ND H 82
1ST H 83
2ND H 83
1ST H 84
2ND H 8

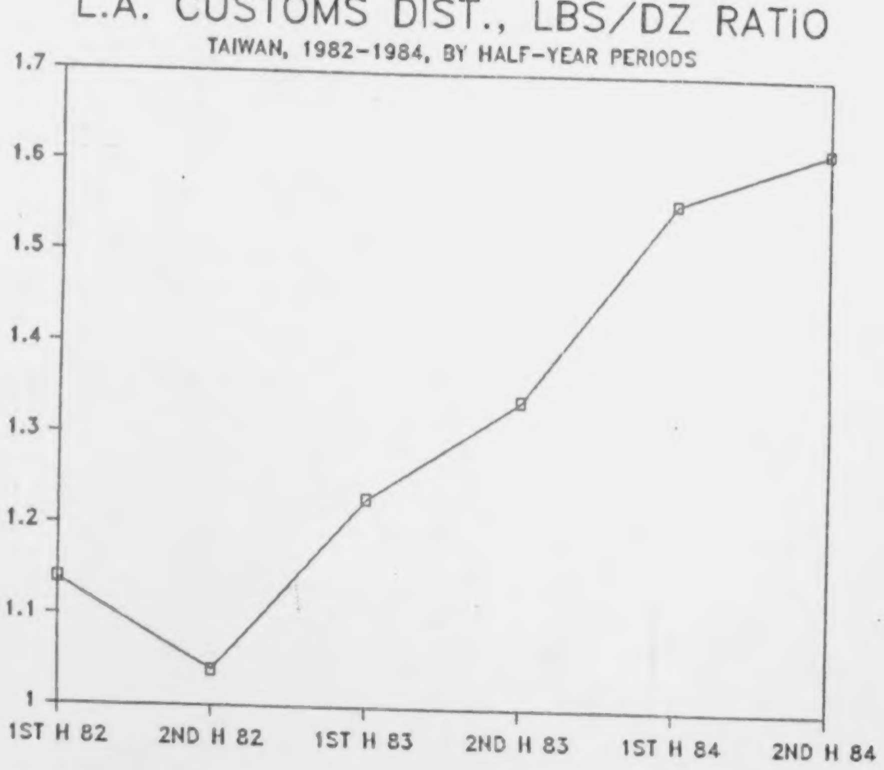
Chart 2



SEATTLE CUST. DIST., LBS/DZ RATIO

KOREA, 1982-1984, BY HALF-YEAR PERIODS

Chart 3


L.A. CUSTOMS DIST., LBS/DZ RATIO
TAIWAN, 1982-1984, BY HALF-YEAR PERIODS
1.7
1.6
1.5
1.4
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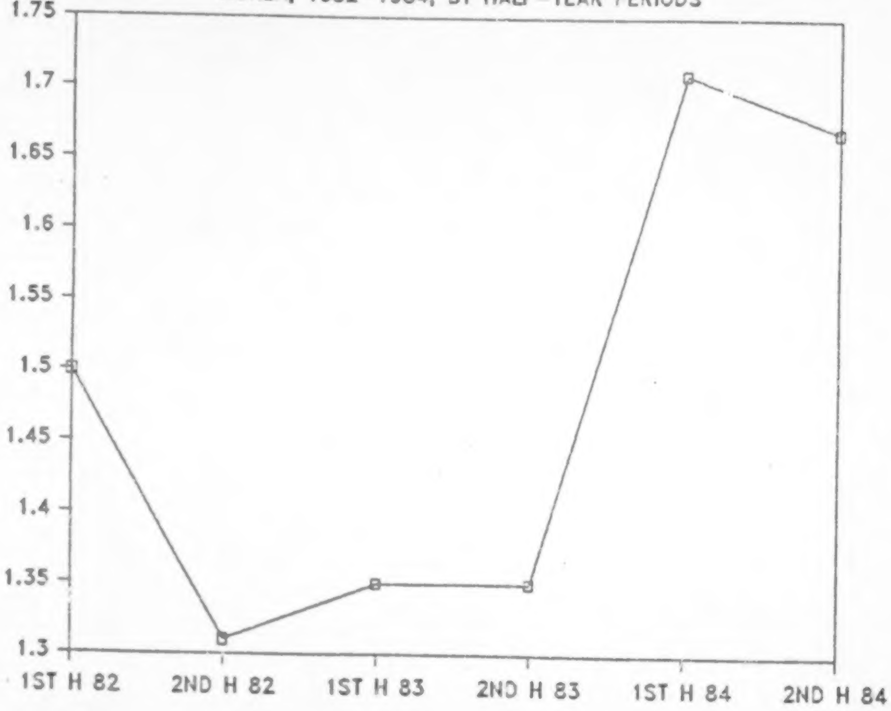
1.2
1.1
1
1ST H 82
2ND H 82
1ST H 83
2ND H 83
1ST H 84
2ND H 84

Chart 4



L.A. CUSTOMS DIST., LBS/DZ RATIO

KOREA, 1982-1984, BY HALF-YEAR PERIODS

TABLE 3.—U.S. GENERAL IMPORTS OF MAN-MADE FIBER HEADWEAR, KNIT OR WOVEN, IN PART OF BRAID,[1] FROM THE PHILIPPINES, ANNUALLY 1979–84 AND FIRST QUARTER 1984 AND 1985

[In thousands of dozens]

Year	Amount
1979	55
1980	51
1981	29
1982	180
1983	312
1984	565
January–March 1984	93
January–March 1985	207

[1] 1979–1984; TSUSA item 703.0500: 1985: TSUSA items 703.0510, 703.0520, 703.0530, 703.0540, 703.0550, and 703.0560.

Source: U.S. Department of Commerce data.

TABLE 4.—U.S. GENERAL IMPORTS FROM TAIWAN, KOREA, AND THE PRC OF COTTON HEADWEAR,[1] ANNUALLY 1981–84 AND FIRST QUARTER 1984 AND 1985

[In dozens]

	Taiwan	Korea	PRC	Hong Kong	Other countries	Total
1981	5,154	649,369	348,966	271,380	77,185	1,352,054
1982	44,426	993,385	517,110	326,993	54,387	1,936,301
1983	576,826	961,033	766,701	454,528	137,717	2,896,805
1984	1,218,404	1,223,470	1,397,338	515,384	92,289	4,446,885
January–March 1984	227,239	276.807	390,273	181,376	33,444	1,109,139
January–March 1985	465,065	556,325	488,243	202,252	15,381	1,727,266

[1] TSUSA items 702.0600 and 702.1200.

Source: U.S. Department of Commerce data.

APPENDIX A

CHRONOLOGY OF EVENTS REGARDING UNDERSTATEMENT OF VISA WEIGHTS FOR U.S. IMPORTS OF MAN-MADE FIBER HEADWEAR FROM TAIWAN AND KOREA

February 1984.—Domestic headwear industry representatives informed Economic Consulting Services Inc. (ECS) that several shipments of man-made fiber headwear from Taiwan, which are subject to specific quota restraints, were being held up in the U.S. Customs Office in Seattle due to significant understatement of the visa weight. Since the quotas are stated in pounds, such understating would allow headwear to be shipped in quantities above the legal limits; therefore, this problem posed an urgent concern for the domestic headwear industry.

February 1984.—ECS contacted Ms. Lois Fields of the Seattle Customs Office, who confirmed that a problem with understated visa weights had recently become apparent with respect to man-made fiber headwear entering the Seattle Customs District from Taiwan. Ms. Fields indicated that the Seattle Customs Office, which was the first to spot this problem, sent notification to all of the other Customs Offices concerning the appearance of this problem, according to standard Customs procedures.

February 1984.—Following the conversation with Ms. Fields in Seattle, ECS contacted Mr. Herman Davis of the New York Customs Office because industry sources indicated that this port was another area where this problem was occurring. Mr. Davis confirmed that he had received notification of the problem from the Seattle Customs Office and that his office had discovered shipments of man-made fiber headwear from Taiwan with understated visa weights in recent weeks. Both Mr. Davis and Ms. Fields indicated that they would continue to hold up any shipments having understated visa weights.

March 2, 1984.—The Headwear Institute of America (HIA) sent letters to Ambassador Richard Imus, Chief Textile Negotiator of the Office of the United States Trade Representative and to Mr. Walter C. Lenahan, Deputy Assistant Secretary, Office of Textiles and Apparel, U.S. Department of Commerce, informing them of the problem of understatement of visa weights. These letters detailed the contacts to date that had been made with Customs personnel and expressed the concern that the understated visa weights were allowing the circumvention of existing quotas on man-made fiber headwear. Also, the fears were expressed that the full extent of the problem had not yet been realized and that the discovery of the problem in early 1984 brought into question the count of imports from Taiwan charged against the restraint levels in 1982 and 1983. At this time, HIA also reiterated its concern regarding surging imports of cotton headwear, which represents to a large extent diversion to avoid the man-made fiber headwear quotas. In conclusion, a request was made that an investigation be initiated to determine the extent of understating of visa weights in 1982 and 1983 and that the 1984 quota levels be reduced by the amount of excess shipments found. A request for calls on cotton headwear was also reiterated.

March 28, 1984.—ECS made a follow-up call to Ms. Lois Fields of the Seattle Customs Office. Ms. Fields indicated that the Customs policy of basing visa weights on the total weight of the imported merchandise, rathr than just the weight of the textile materials included, was longstanding and was not the result of any recent ruling or policy change. Furthermore, she stated that understated visa weights had become a problem with man-made fiber headwear entering from *both* Taiwan and Korea.

March 28, 1984.—ECS contacted Ms. Holly Marshall of the Los Angeles Customs Office and learned that man-made fiber headwear from Taiwan and Korea entering through the Los Angeles Customs District also had understated visa weights. Ms. Marshall indicated that, at tht time, virtually *all* of this man-made fiber headwear entering Los Angeles from Taiwan was being held up due to the problem of understated visa weights. Ms. Marshall also indicated that their concerted efforts to catch this problem began on March 9, following notification of the problem from the Seattle Customs Office.

April-May 1984.—ECS, on behalf of HIA, maintained telephone contact with Department of Commerce personnel to monitor progress toward resolution of the problem concerning understated visa weights. Although the practice had been detected and halted due to the diligent work of the U.S. Customs Service, the primary concern of the domestic industry at the time was that some action be taken to rectify the overshipping of man-made fiber headwear covered by quotas which undoubtedly occurred in early years, particularly 1982 and 1983. No action had yet been taken.

June 19, 1984.—ECS wrote to Commerce personnel at the Office of Textiles and Apparel, U.S. Department of Commerce, who were at that time attempting to quantify the overshipments of headwear from Taiwan and Korea which had occurred in 1982 and 1983 as a result of visa weight understatement. This letter included a copy of a June 1, 1984 telex from Young An, the major Korean cap producer, detailing the quota shortages it was experiencing as a result of the U.S. Customs Service's enforcement of proper visa weights on man-made fiber headwear. Figures on pounds per dozen ratios were also included, based on official Department of Commerce trade data, for imports under TSUSA item 703.0500 from Taiwan and Korea into the Seattle and Los Angeles Customs Districts. These data clearly showed that, in 1983, shipments of man-made fiber headwear from Taiwan and Korea into these two Customs Districts had visa weights understated from 22 percent to 35 percent. HIA urged that those percentages be applied to actual imports from Taiwan and Korea in 1983, and that the resulting absolute quantities be deducted from the 1984 quota levels in order to compensate for overshipments in 1983 as a result of the understated visa weights.

July 1984.—The industry learned that Commerce had completed its internal study of visa weight understatement since 1982, but that no decision as to what action should be taken had been reached.

August 1984.—The industry was told by government officials that, as of yet, no adequate proof of vias weight understating in earlier years had been obtained.

August 16, 1984.—The domestic industry began to contact members of CITA and Congressional representatives urging action to resolve the visa weight understatement problem.

September-October 1984.—Responses to letters were received from CITA members, indicating that they were aware of the viar weight understatement problem and were working on a resolution. All of the responses indicated that with respect to current shipments, proper weights were now being charged. However, the industry's main concern was compensation for overshipments in earlier year. Letters from Ambassador Richard Imus at USTR indicated that he had received on August 20, 1984 the Commerce Department's initial analysis of man-made fiber headwear imports. However, USTR request additional information which it felt was necessary to obtain prior to the start of any formal consultations. In a letter of October 31, 1984, Commerce indicated that it was still working with the U.S. Customs Service to determine the volume of shipments received in 1982 and 1983 which were not correctly charged to agreement levels.

November 26, 1984.—ECS had further telephone conversations with Commerce and Customs officials in Washington, who indicated that their investigation was proceeding.

Early January 1985.—ECS was assured by Commerce officials that conclusion of their investigation was imminent and that work was proceeding rapidly.

February 8, 1985.—ECS learned from Commerce officials that their investigation was not yet complete.

February 25, 1985.—ECS learned from Commerce officials that their investigation of the understating problem had been completed and that it would soon be the subject of internal discussions.

February 28, 1985.—Domestic industry representatives met with their Congressman and Senators to make known their concerns regarding the understating problem and to ask their representatives to contact CITA members regarding the problem.

March 1, 1985.—Domestic industry representatives met with officials of the Department of Commerce and the Office of the United States Trade Representative to express their concerns regarding the problem of understated vias weights on manmade fiber headwear from both Taiwan and Korea. The U.S. Government officials assured the industry representatives that their study of the understating problem, based on documents supplied by the U.S. Customs Service, was complete and that the matter would soon be discussed by CITA.

March 5, 1985.—The domestic industry learned that CITA members met and that apparently all members were satisfied by the evidence of understated visa weights compiled by the Customs Service and the Department of Commerce.

Mid-March-early April 1985.—Numerous Congressman and Senators wrote to CITA members expressing their concern with the understating problem and the urgent need to charge the full amount of the understating against the current year's quota.

April 16-22, 1985.—Consultations were held in Washington, D.C. with the Taiwanese, at which the understating problem was discussed.

May 9, 1985.—The results of the April consultations were published in the Federal Register. No mutually satisfactory conclusion was reached, so the U.S. Government unilaterally decided to charge 750,064 pounds to the 1985 restraint limit, pending any different solution which could be reached in further consultations scheduled for May 20, 1985.

May 31, 1985.—The industry was told by USTR officials that a mutually satisfactory agreement had been reached on the understating issue at the May 20 negotiations. Furthermore, the industry was told that the outcome was the same as that announced on May 9 Federal Register notice.

June 10, 1985.—The domestic industry learned from sources in Taiwan that CITA had decided to allow the 750,000 pounds of overshipped headwear to be charged in three equal amounts of 250,000 pounds each over the next three years, rather than charging the whole amount to the 1985 quota, as CITA originally decided.

Present.—The Domestic headwear industry, following the incredibly long delay between the identification of the problem and its resolution, is outraged at the end results of the negotiations with the Taiwanese. A penalty for overshipments allocated over three years is virtually painless for the Taiwanese, who have apparently never even contested the fact that they were engaged in fraudulent shipments. Furthermore, with respect to Korea, to date the U.S. Government has taken no action to compensate for the overshipment beyond legally allowed quota levels which occurred due to understated visa weights, even though the problem is just as serious as it was with Taiwan.

APPENDIX B

As you know well, recent visa weight shortage problems of Taiwan headwear caused U.S. Customs Office claiming visa weight should be the total weight definitely containing accessory weight. This U.S. Customs policy driving ——— confronting quota shortage situation by approximately 35 percent, also unable ship polyester goods on or after early July, this year, view our polyester quota being exhausted completely by end June.

In this case, our all customers business being hurt considerably. Wherefore ——— been developing new fabric material, namely C.V.C. Jersey since September, last year, also succeeded fortunately. Consequently ——— able supply C.V.C. Jersey cap in place of polyester jersey goods from around mid July, and this material sample goods being sent within next week.

Of course, will supply this goods basis same prices as polyester goods, even though this fabric cost higher by approx 40 percent than the polyester material, which loss being absorbed by ———.

Meantime PLS note the appearance of C.V.C. Jersey is almost same as polyester material, also their special texture will guarantee the superior quality than polyester, with playing same roll as polyester goods in pursuing of printing, sublimation, and other purposes.

In this connection, ——— sure this C.V.C. Jersey goods bring about considerable better selling in your market than current polyester ones.

PLS ADV soonest possible upon receipt our sample goods.

Regards ———.

Reply via ITT

APPENDIX C

DOMESTIC HEADWEAR INDUSTRY PLANT CLOSINGS IN PAST YEAR

Company:	*Location*
Hats and Caps:	
Vendome Headwear Inc	New York
Sheiner & Blum Cap Corp	New York
Henschel Manufacturing Co	Illinois
International Hat Co. (4 plants)	Missouri
Langenberg Hat Co. (2 plants)	Missouri
Caps Only:	
Kroll Cap Corp	New York
Imperial Caps, Inc	Colorado
Pioneer Hat Co. (3 plants)	Missouri
Swingster	Kansas
J. A. Miller Cap Co	Minnesota
Malrov-United Hat and Cap Co.	Minnesota

STATEMENT OF HON. BILL HENDON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA

Mr. Chairman and members of the subcommittee, thank you for providing me this opportunity to express my views on a matter of such great importance and concern to the textile workers in my district and throughout North Carolina. My message is very simple and one I have made previously before the Subcommittee on Commerce, Consumer and Monetary Affairs of the House Committee on Government Operations. The U.S. Textile industry is on the verge of collapse and without prompt action by this federal government that result will come sooner than any of us wish to think.

Unfortunately, our trade representatives seem to have turned a deaf ear to the problem facing textiles. Rather than responding with bold steps to curb textile imports, these trade experts are content to make the classic textbook argument for free trade.

Sadly, imports have increased drastically in spite of international agreements purportedly designed to stabilize world trade. The public record of foreign trade subsidies is a mile long. Incidents of transgressions and circumvention are commonplace. We all want a "level playing field" with "free trade", Mr. Chairman, but the real world demands that we re-evaluate "free-trade" and strive to implement a "fair trade" policy. The sad fact is the United States is the only player in the game of "free trade".

The textile industry has just experienced the worst year in its history. Figures released for 1984 show a record trade deficit of $16 billion and a loss of over 180,000 jobs. During the same period, the industry has invested more than 1 billion each year in new plants and equipment. This year the figure will be around $2 billion. Productivity in the textile industry has increased by 44 percent in the last 15 years. And yet, if imports continue at the current rate, the industry will essentially be eliminated by 1995.

In North Carolina, Mr. Chairman, the number of unemployed textile workers nearly doubled between January 1983 and January 1984. Figures provided to me by the North Carolina Employment Security Commission show that 26,639 textile workers now seek unemployment benefits each week. For many, time has run out.

In 1984, 43 textile and apparel plants in North Carolina closed or had significant permanent layoffs. Many other plants are now operating under "short time" and still the North Carolina Department of Commerce figures show that nearly 8,000 textile jobs were lost during 1984. Additionally, many jobs were lost in support industries with the "ripple effects" hurting entire towns and communities.

In one county in my district, the impact of imports has been especially harsh. Rutherford County, North Carolina is nestled between the beautiful mountains of Western North Carolina, some 50 miles southeast of Asheville. In stark contrast to its scenic tranquility, Rutherford County now has an unemployment rate of 12 percent and widespread discord. More than ten percent of the entire population is employed by one of the 20 textile and apparel plants. One major plant in the County has closed during the past year, and several others are having financial troubles—for the most part due to the flood of textile imports.

One major employer in Rutherford County has reduced its work force by 19.5 percent last year. I have personally toured this well-established plant. The operation is totally modernized. In fact, two years ago they spent several million dollars on plant and equipment to achieve "state of the art" capability.

Recently, an article in the Washington Post brought national attention to the plight of another plant closing in my district: The Old Fort Finishing Company in McDowell County. Perhaps you saw it, Mr. Chairman. At one time, Old Fort employed over 1,000 people. Today, there are only 23 people on the payroll.

The average worker had twenty years of seniority and was paid $7 an hour. Old Fort had already begun a $17.5 million modernization program when the shutdown announcement was made last May. This is a classic example of just how devastating the situation is.

In summary, Mr. Chairman, I am convinced without hesitation, that the textile industry had done all the things that we, in government, can reasonably expect an industry to do in order to be competitive. The threat to the very life of the textile industry can be discovered in the relationship between the United States as a virtual dumping ground and the foreign government-business partnerships. The unfair advantage enjoyed by foreign companies has been at the expense of the textile plants and their employees. There are real people behind the facts and figures I have mentioned. I have been asked why is it that our government stands by while one of our industries goes down the drain? Unfortunately, I do not have the answer to that question.

That's why I appreciate the opportunity to express my views before the Subcommittee to relay a message from the good people of Western North Carolina; that is, Mr. Chairman, our textile industry is bleeding, we are bleeding from a self-inflicted wound called "free trade". I urge you, Mr. Chairman, and all my colleagues to support the bipartisan legislation which has close to 300 cosponsors in the House and over 50 in the other body. This legislation is the last and best hope for this crucial segment of the American free enterprise system.

Thank you, Mr. Chairman.

STATEMENT OF GUNTER VON CONRAD, ITALY-AMERICA CHAMBER OF COMMERCE, INC., TEXTILE AND APPAREL COMMITTEE

This statement is submitted on behalf of the Textile and Apparel Committee of the Italy-America Chamber of Commerce, Inc. in response to the Subcommittee's invitation for comments (Subcommittee on Trade, Release Number 10, July 2, 1985) on H.R. 1562, the Textile and Apparel Trade Enforcement bill, introduced by Representative Jenkins on March 19, 1985. The Italy-America Chamber of Commerce, Inc. is an organization of U.S. businesses vitally concerned with trade between the United States and Italy. The Textile and Apparel Committee members are importers of apparel produced in Italy.

The Committee notes that as presently defined in H.R. 1562, the term "country" excludes the member states of the European Economic Community. Therefore, the import restrictions which would be established under the bill would not be applied to textile products of Italy and other European states. The Committee believes that, to the extent import quotas on apparel products are legislatively imposed, no such restrictions should be directed to apparel produced in Italy. The adverse effects of imported textile articles on U.S. industries which are declared in the "Findings" set forth at Section 3 of the bill are unrelated to imported garments manufactured in Italy. In light of the stated policy goals of the bill, Italy and the European Communities should not be included in the definition of "country" . . .

The IACC Textile and Apparel Committee has also taken note of the proposal included in Section 6 of the bill to establish and administer an import licensing system under which importers of textiles and textile products from any country and from Canada and the member states of the European Economic Community will be required to present an import permit as a condition of entry. The Committee believes that the licensing products imported from countries such as Italy, which would not be the subject of quantitative import limits, would serve no purpose. Information concerning import volume in each category for purposes of calculating import/domestic production ratios and percentage import growth limitations will be readily ascertainable from import documentation and statistics which are currently gathered by the Customs Service and Bureau of the Census. Therefore, the enforcement of a licensing and fee system against imports excluded from quantitative limits appears to serve no useful administrative function.

The IACC Textile and Apparel Committee respectfully requests the opportunity to submit additional comments at such time as the Committee solicits further public participation in its consideration of the bill.

J.C. Penney, Co., Inc.,
Washington, DC, April 10, 1985.

Hon. Sam M. Gibbons,
Chairman, Subcommittee on Trade, U.S. House of Representatives, Longworth House Office Building, Washington, DC.

Dear Mr. Chairman: J.C. Penney Company, Inc. appreciates the opportunity to comment on the current conditions in the textile and apparel industries and on the administration of the textile program.

At the Subcommittee's April 3, 1985 hearings, testimony was presented by two organizations in which J.C. Penney is represented: Retail Industry Trade Action Committee (RITAC) and the American Association of Exporters and Importers' Textile and Apparel Group. J.C. Penney fully supports the statements made by these groups.

In particular, we wish to endorse the strong opposition expressed by RITAC to the "Textile and Apparel Trade Enforcement Act," HR 1562. As one of the world's largest retailers of textile and apparel merchandise, J.C. Penney is very familiar with the impact of domestic producers' ongoing efforts to avoid competition from imports: higher consumer prices, a reduced assortment of styles, and a removal of incentives for domestic producers to produce competitively priced merchandise. HR 1562 would not only provide higher levels of protection to an industry which is already heavily insulated from import competition, but would make fundamental and ill-advised changes in the way trade policy is made and administered. We hope that before voting to impose additional burdens on American consumers and businesses engaged in the export sector, the Subcommittee will consider other approaches, such as the measures contained in Senator Roth's "Trade Expansion Act of 1985" (S. 234), which I discussed with you recently.

With respect to the administration of the existing textile program, J.C. Penney's experience has been similar to others who have been adversely affected by inefficiencies and arbitrary administrative decisions. This experience is exemplified by an incident which occurred late last year with regard to a shipment of girls' jackets from the People's Republic of China which J.C. Penney had ordered in July of 1984. By the time this merchandise arrived in the United States, the merchandise category in which it was classified had been "filled," and so the jackets were denied entry. Although China had a contractual right (under the "carryforward" provision of its bilateral textile agreement with the United States) to have this merchandise entered upon mere notice to the United States, the Department of Commerce nevertheless required the carryforward request to be approved by the Committee for the Implementation of the Textile Agreements. Moreover, the U.S. Customs Service—not a CITA member—was also involved in the approval process, and initially refused to clear the request, apparently because of an alleged personnel shortage. Although Customs, after being contacted by your Subcommittee's Staff members ultimately relented, and the goods were permitted entry, the process took an additional three weeks, and deprived Penney customers of the goods (and J.C. Penney of its opportunity to sell) during the critical Christmas selling season.

In short, both Penney and its customers were injured by a clearance procedure which should never have been required, involving an agency which should not have been involved. Actions of this type frustrate the implementation of international agreements to the detriment of American consumers and businesses.

We hope that the Committee's review of the problems facing the textile and apparel industries will consider whether the departments and agencies charged with administering import laws and agreements have adopted or, through lack of resources have been forced to adopt, policies which hamper, rather than facilitate, their implementation.

Very truly yours,

EUGENE F. ROWAN,
Divisional Vice President and Manager,
Federal Government Relations.

TALLADEGA, AL, *April 8, 1985*,

TRADE SUBCOMMITTEE,
Ways and Means Committee, House of Representatives, Washington, DC.

DEAR CONGRESSMEN: In 1979 Bemis Company Inc. closed down, here in Talladega, after 50 years of operation. Bemis closed down, based largely, on too many textile imports.

I had thirty-seven and one-half years of seniority with Bemis, including my seniority that continued while I was in the Army during World War II.

I looked for a job here in Talladega for about four months before being hired at Eva Jane, Avondale Mills, in Sylacauga on February 19, 1980.

Since I did not have much seniority at Avondale, and again, due to foreign competition, I was laid off in 1981, and again in 1982.

I was laid off again in 1984 because of cut backs at Eva Jane Mills, due to far too many textile imports.

Since November, 1979, I have been laid off so much I have lost count. However, I know I have been laid off at least two years in all already, and I am unemployed now.

President Reagan has said he believes in free trade. Well, I believe in the freedom to have a job in textiles, and not let foreign countries take my job.

I served my Country for thirty-five months during World War II, without a furlough home. I believe I should get some consideration in textile work over foreign workers.

From my viewpoint, we should not give foreign aid to much of the world, and then give them our jobs too, through too many foreign imports.

Sincerely,

JAMES C. JOINER.

P.S.—I understand President Reagan stated recently that there is no need for an extension of unemployment. If it wasn't for President Reagan's trade policy most of the unemployed would not need any unemployment benefits in the first place.

If I had President Reagan's salary I wouldn't need any unemployment benefits either.

STATEMENT OF KENNETH A. KUMM, CHAIRMAN, JOINT INDUSTRY GROUP

The Joint Industry Group, is a business coalition of firms, trade associations and law firms involved in international trade and concerned with customs matters. We have followed with interest the actions of the U.S. Customs Service in amending the regulation on country of origin with regard to textile quota trade (49 Fed. Reg. 31248, August 3, 1984). The Joint Industry Group at the time the Country of Origin regulation amendments were issued protested that the timing and means taken to effect the change in country of origin designations ignored reasonable due process procedures. At the same time the Joint Industry Group recognizes and accepts that the President has ample statutory authority to enforce the bilateral textile agreements with regard to limiting quantities of specific categories of textile and apparel as set forth in the bilateral agreement with the exporting country. The courts have confirmed that proper authority exists for the actions taken by the Customs Service.

What concerned the Joint Industry Group at the time of the action on textile quota imports, and since, is the Country of Origin regulation to achieve the appropriate degree of enforcement of the bilateral textile agreements. The President's authority under section 204 of the Agricultural Trade Act of 1956 to limit exports to or imports into the United States products subject to bilateral agreement is very broad, including the authority to limit imports from nonagreement countries.

Thus, the Joint Industry Group was concerned with the substantive changes in criteria for making country of origin determinations announced by the Customs Service in its amendments to the regulation on textile quota imports.

The Joint Industry Group has become even more concerned with the announcement that the Customs Service intends to extend these new, additional criteria for determining country of origin to all types of entry requirements related to country of origin. What also concerns the Joint Industry Group is the contention by the Customs Service that these new additional criteria are already encompassed in existing practice in terms of country of origin determinations, thus completely ignoring the impact that their actions can have on existing trade practices and trade patterns. The Joint Industry Group strongly disagrees with that contention. However, the Customs Service has now proceeded on a case by case basis to force conformity in the name of uniformity, again without regard for the economic consequences, or the need for such changes.

The Joint Industry Group has made its concerns known to the Customs Service. Since in the opinion of the Joint Industry Group the changes in country of origin determinations being pursued by the Customs Service are those which require legislative consideration and statutory implementation we wish to detail our concerns to the Subcommittee on Trade.

1. A confusion has apparently arisen between the concepts of rules of origin, for purposes of establishing the true country of origin of materials produced or grown in one country and subjected to further transformation in another country, and rules of preference, which are pre-conditions attached to merchandise originating abroad, either for the purpose of qualifying for a special privilege or benefit, such as duty-free treatment on importation, or in order to impose some restriction with regard to the importation of such merchandise.

GSP and the Caribbean Basin program each reflect the imposition of requirements in addition to the traditional origin concepts that must be met in order to qualify for duty-free benefits. The textile quota provisions are a proper area for establishing supplemental conditions in order to assure that quota restrictions based on origin are not evaded.

2. In pursuit of what it perceives as the "necessary logic" of applying uniform "rules or origin" to all merchandise, for all purposes (classification for duty purposes, marking requirements, etc.), the U.S. Customs Service has embarked on a program that would impose a new and additional pre-condition that must be met, in addition to the traditional test of "substantial transformation", before merchandise grown or produced in one country and processed in a second country can be considered as having its origin in that second country. In addition to the tests evolved through court interpretations of law and regulations for generations, which define "substantial transformation" on the basis of whether the product has been transformed into a new and different article of commerce, having a different name, character, or use than the original article or material, the Customs Service proposes to add to this requirement its textile quota test that the process by which an article is transformed into a different product must meet an independent test of "substantiality". This latter test, in simplistic terms, is a quantitative comparing of the costs and complexity of the manufacturing process to the value of the article at the time that it is first subjected to that process.

Materials of great value (gold, precious gems, etc.) which may be converted into manufactured products at a fairly low cost, through manual labor, could not qualify as products of the country of manufacture under such a standard, but would be deemed to have their "origin" in the country where the gold, precious gems, etc., originated as a raw material. Such an interpretation is not only preposterous, but it clearly conflicts with any number of court decisions over many decades. Although these court decisions agree that the determination of the country of origin depends on the "facts" in each case, those cases clearly restate the proposition governing the evaluation of those facts, namely that the substantiality of the transformation is determined from the change in the name, character, or use of the materials being transformed. That determination cannot be negated by any evaluation of the substantiality of the process by which the transformation is accomplished.

3. Although the Customs Service appears to have embarked on a project of incorporating its new "process test" on a commodity by commodity basis (for example, the recently proposed change of practice with regard to pistachio nuts, coffee beans, etc., imported by manufacturers in the United States for roasting or similar processing prior to their sale in the United States), concepts and practices relied upon by the public and accepted by the Congress as proper interpretations of existing legislation should not be changed administratively, even by change of practice, unless the previous interpretation is shown to be clearly wrong. We are aware of no allegation

that the past test of substantial transformation, as applied by courts and the Customs Service for traditional country of origin purposes, is alleged by anyone to have been clearly wrong.

Attached in the appendix to this memorandum is a list summarizing the most significant judicial decisions in the area of country of origin determinations over the past forty years. Any analysis of these cases will reveal that the Courts have repeatedly noted that each case must be decided upon its own facts. What such an analysis also demonstrates is that the new changes in country of origin determinations being made by the Customs Service go far beyond what have been Court sanctioned for over four decades.

In these circumstances, there is no reasonable basis, whether because of "logic" or "policy", to justify an administrative change in these basic origin rules, in order to impose this additional test of the substantiality of the manufacturing process. Whatever authority has been delegated to the Executive Branch with regard to rules of preference for textile quota purposes cannot be claimed to exist for ordinary country of origin determinations.

4. It is also extremely untimely to undertake such a broad gauged change in interpretation at a time when the International Trade Commission, at the request of Ambassador Brock, is undertaking a major investigation of the impact of rules of origin throughout the world on "competitive conditions" for purposes of international trade. It has been the United States' position that the manipulation of such rules is frequently tantamount to creating non-tariff barriers to trade.

5. Assuming that policy reasons justify some fundamental revision in the rules of origin at this time, we submit that such a change is properly a matter for legislative enactment. Unlike the textile quota situation, no delegation of legislative authority can be found that would justify such a change by administrative action. And, as indicated above, the traditional ground for "change of practice" where an ongoing interpretation of existing legislation is considered "clearly wrong" cannot be found.

The Joint Industry Group requests that the Subcommittee give this matter careful consideration and that it communicate to the Customs Service that no further extensions of the "substantiality of manufacturing process" test for country of origin purposes in non-textile quota situations be made until such time as a legislative base for such changes is enacted.

APPENDIX: ANNOTATED LISTING OF SIGNIFICANT JUDICIAL DECISIONS ON COUNTRY OF ORIGIN DETERMINATIONS[*]

1. *Gibson-Thomsen [27 CCPA 267 (CAD 98) (1941)]*: Assembling bristles into imported wood brush blocks and toothbrush handles was sufficient for them to become U.S.-origin hairbrushes and toothbrushes and therefore did not require foreign origin marking.

2. *Samuel Dunkel [33 CCPA 60, (CAD 317) (1945)]*: Forcing 56 lb. blocks of butter through a die and cutting the resulting roll into 1 lb. cylindrical pieces, which were then canned, did not result in a new or different article having a distinctive name, character or use. Change of shape or form was not production and the Court affirmed Customs' denial of manufacturing drawback.

3. *International Paint [CD 1052 (1948) aff'd CCPA (1948)]*: Simple processing making it possible to ladle off impurities created antifouling paint from more generic marine paint and were adequate to result in a manufactured product eligible for manufacturing drawback.

4. *Richardson [36 CCPA (Customs) 15 CAD 390 (1948)]*: The Court of Customs and Patents Appeals, in reversing the lower court decision, concluded that "flanging" by three pressing operations on "flat bands" or "rims" was a manufacture, not an alteration. These operations converted into "parts of machines" (i.e. idler wheels for T-26 truck treads) what has been "manufactures of metal" even though they were already dedicated to their intended use. Indirectly this case implies a change in classification can be a substantial transformation.

5. *Chemo Pure Mfg. [34 Cust. Ct. 8 (1954)]*: Processing Chinese nutgalls into tannic acid transformed them into an "article the growth, product or manufacture of the United Kingdom and dutiable as such" rather than Customs' position that they were a prohibited Chinese product.

6. *Burstrom [36 Cust. Ct. 46 C.D. 1752, affirmed in 44 CCPA (Customs 27 CA D631 (1956)]*: The Court confirmed Customs' decision that converting steel ingots measur-

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[*] Excerpted from Statement of the Industry Sector Advisory Committee on Customs Matters before the U.S. International Trade Commission pursuant to Investigation Number 332-192 concerning the Impact of Rules of Origin on United States Imports and Exports.

ing 22×48×56 inches into slabs measuring 4×44×120 inches by heating them to 2300° F., rolling several times and cutting gave them a different name, value, appearance, size, shape and use. As a result, they were dutied as Canadian articles, rather than as U.S. goods merely altered abroad. Lack of a change in duty rate was immaterial where there was a new article.

7. *Amity Fabrics [C.D. 2104 (1959)]*: Italian velveteen was returned to be redyed to a different more marketable color. The Court reversed Customs' judgment that there was a fully dutiable article as a result, and concluded that there was only a dutiable alteration of a product that was more marketable for the same use and in the same trade.

8. *Grafton Spools [45 Cust. Ct. 16, C.D. 2190 (1960)]*: Imported empty spools sold to business machine manufacturers, who use them in business machines, or to ribbon manufacturers, who wind ribbons onto them, are sales to "ultimate purchasers". Making business machines and winding ribbons are not "minor operations", as covered in the marking regulations, and marking is not required on the spools for resale in business machines or with ribbons wound on them.

9. *Tower [C.D. 2208 (1960)*: Stretching, dyeing and sizing cotton drills (grey goods) exported to Canada from the U.S. processed them into a new and different article, namely, finished cloth backing ready to have an abrasive applied or to be coated. Consequently, the Court confirmed they were to be dutied as Canadian articles, rather than as U.S. goods merely altered abroad.

10. *Diamond Match [C.D. 2223 Aff'd CCPA (1962)]*: Inserting wood spatulas imported in bulk into frozen ice cream in the U.S. made them components of a new article having a new name, character and use.

11. *Midwood Industries [64 Cust. Ct. 499, C.D. 4026 (1970)]*: Processes such as removing excess material, facing, threading, bevelling, drilling and spot facing certain forgings by the importer converted them into pipe fittings. This change from the form of producers' goods into a form of consumers' goods resulted in a different commercial commodity having a new name, character and use. As a result, the importer was the "ultimate purchaser" and marking upon resale in their new form was not required.

12. *Dolliff [81 Cust. Ct. 1, C.D. 4755 (1978)]*: Heat-setting to eliminate shrinkage, chemical scouring, dyeing and second heat setting with chemicals that provided anti-creasing, anti-static and softening characteristics provided more than an alternation to greige goods. They created a new article of commerce, finished fabric, sold at a different price in a different market to different customers with a different name, shape, appearance and use.

13. *Cardinal Glove [CIT Slip Op. 82-59 (1982)]*: Simply sewing together the parts of a glove that had been cut out in another country created new articles for textile quota purposes.

14. *Data General [CIT Slip Op. 82-93 (1982)]*: Programming of foreign-made printed circuit board transformed it into a U.S. product. While the programming itself involved little work, the development of the program was significant. Programmed boards were eligible for deduction under item 807, TSUS, as U.S.-fabricated components.

15. *Belcrest Linen [CA of FC POA 84-734 (1984)]*: Cutting pre-marked bolts of Chinese cloth, scalloping the pieces, decorative stitching and sewing up the sides were more than "mere assembly" and created a product of Hong Kong. As a result, the lower "Column 1" (Most Favored Nation), rather than the higher "Column 2" (Communist Country), duty rates were applicable.

STATEMENT OF HON. PAUL E. KANJORSKI, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. Chairman, members of the Subcommittee, I want to commend you for holding these hearings today and I appreciate the opportunity to testify on the plight of the domestic textile industry.

Today the American textile and apparel industry is teetering on the brink of disaster. If we do not act, and act quickly, the industry as we know it will simply cease to exist by the turn of the century. We will have lost an industry which directly employs nearly 2 million workers, indirectly employs an additional 2 million workers, and contributes $145 billion to our GNP. This is a loss we cannot afford.

Since 1980 textile imports have doubled and the situation is getting worse, not better. Last year alone imports increased 44% over the previous year. At the end of World War II less than 5% of all clothing sold in the U.S. was made overseas. Today, more than half of all clothing sold in the U.S. is made overseas. For some types of garments imports make up as much as 80% of the U.S. market. Foreign importers are no longer satisfied with the shirt off our backs, now they want our pants ans socks too.

Textile and apparel imports are a major reason why our trade deficit with foreign nations hit a record $125 billion last year. The deficit in textiles and apparels alone was $16.5 billion, up an astounding 53% from the previous year. The textile and apparel deficit made up 13% of our total national trade deficit.

A decade ago the American textile and apparel industry employed 2.5 million workers. The flood of foreign imports into our country has cost some 600,000 workers—20% of the industry—to lose their jobs.

Mr. Chairman, I represent only one of 435 congressional districts in the United States but in my district alone in the last two years more than two dozen firms employing over 3,500 workers have gone out of business. These figures do not even take into account the many workers who have been laid off by firms that are still struggling to stay alive. And this is not an isolated problem that affects only one or two towns, it is a pervasive trend which affects nearly every town in the district from Hazleton to Shamokin, and Bloomsburg to Wilkes-Barre.

In my home state of Pennsylvania some 10,000 workers in the textile and apparel industry have recently lost their jobs. If any other industry in the state or nation had lost this many jobs it would have been on the front pages of our papers for days, but because individual layoffs in this industry have often been relatively small we rarely hear about them. It is the cumulative effect which is so destructive. Earlier this year I joined my state's textile workers and their employers as they sought to remedy this oversight by staging the largest workers' rally in Pennsylvania history on the steps of the State House in Harrisburg.

In the face of this onslaught of foreign goods neither the domestic manufacturer nor the textile worker has stood still. Both have done their part to try and keep our industry competitive. Our manufacturers have spend an average of over $1 billion dollars a year for each of the last ten years to modernize their plants and equipment. Workers have helped to contribute to a 44% increase in productivity and output over the last 15 years.

Why then is the domestic industry in so much trouble today? Largely as a result of factors which are outside of its control: a rising dollar, lax U.S. trade policies, and rampant foreign subsidization.

U.S. companies have to borrow on the free market at rates which are usually in excess of 12%. Their subsidized Japanese competitors, however, can borow at 7%—a substantial savings. U.S. companies have to pay essentially the same taxes on their foreign sales as they do on their domestic sales, yet many foreign countries require no taxes on foreign sales.

U.S. manufacturers must pay their employees a minimum wage of at least $3.35 an hour. Chinese manufacturers can pay as little as 16¢ an hour. The United States has established a policy which states that the labor of every man and woman in the nation is worth at least $3.35 an hour yet we undercut that policy by allowing imports made by workers who earn as little as 16¢ an hour. If we truly believe in the minimum wage, as I do, we should not allow it to be undercut by subminimum wage imports. Our trade policy should reflect differences in wage standards.

Mr. Chairman, we hear a lot these days about the importance of so-called "free trade." Even more important than "free trade," however, is the concept of "fair trade." Trade is not fair when the U.S. allows virtually unlimited entry of goods from a foreign nation, but that nation hinders entry of U.S. goods into its markets. Trade is not fair when a U.S. manufacturer who pays his employees a living wage has to compete with a foreign manufacturer who pays 16¢ an hour. Trade is not fair when American manufacturers must pay nearly twice as high interest rates as their foreign competitors to modernize their plants.

We in the Congress should not be afraid to use our trade law to create a level playing field for American manufacturers and American laborers. We should not sit idly by and watch the death of a proud industry that is as old as our nation just to honor someone's concept of "free" trade.

That is why I am proud to be one of the more than 280 Members of Congress who have joined together in introducing H.R. 1562, the Textile and Apparel Trade Enforcement Act of 1985. Our bill will curb the voracious appetites of the "Big Five" (Korea, China, Hong Kong, Taiwan and Japan) and give our domestic industry time to complete its modernization.

Mr. Chairman, we all know the children's story about the Emperor who wore no clothes. If we in the Congress do not take action soon to resolve the problems of the domestic textile and apparel industry, we won't have to worry whether or not the Emperor is wearing any clothes, because even if he is, they won't be "Made in America."

STATEMENT OF MARTIN TRUST, PRESIDENT, MAST INDUSTRIES, INC., ON BEHALF OF THE LIMITED, INC.

Mr. Chairman and members of the Subcommittee on Trade, my name is Martin Trust. I am President of Mast Industries, Inc., which in 1978 merged with The Limited, Inc. I submit this statement on behalf of The Limited, the country's largest women's apparel specialty retailer with almost 2,500 stores and several mail order businesses in the United States. We employ approximately 17,000 people and sell about 100 million garments a year. The Limited appreciates this opportunity to present its views in opposition to H.R. 1562, also known as the Textile and Apparel Trade Enforcement Act of 1985.

The Limited would like to begin by making clear to this Committee that as citizens we indeed share the natural concern you and all your Congressional colleagues must feel for the preservation of a strong American economic base and employment for American workers. The question, of course, is whether the proposed bill is likely to achieve those objectives. Upon careful examination of H.R. 1562, we must conclude that the bill not only fails to achieve these objectives, but seriously threatens to impose further harm on an already troubled U.S. retail industry.

The domestic textile and apparel industries have singled out import competition as the perpetrator of their suffering. It is indeed easy to point an accusing finger and to ignore the obvious problems of an all too strong dollar as well as weak, nonimaginative U.S. industry management. It is also quite tempting to want to wave a magic wand and provide a "quick fix" to the domestic industry via a protectionist measure transparently masquerading as a trade enforcement measure. Unfortunately, the realities are that there exist no quick and simple solutions to this problem. In fact, the proposed bill would only add to the staggering amount of protection currently afforded to the textile and apparel industries: An independent study by Washington University in St. Louis reveals that present protectionist measures cost the American consumer $23 billion a year, $19 billion of that amount from tariffs, and $4 billion from import restraints under the Multifiber Arrangement (MFA).

We think it important to dispel the simplistic notion that an American textile and apparel industry collectively is suffering at the hands of U.S. importers. When one considers the individual problems of the textile industry and apparel industry in light of consumer supply and demand, a more balanced perspective comes to light. Hence, in order to achieve a proper analysis of issues, we must clearly distinguish between the textile and apparel industries.

In its role as supplier to The Limited and other retailers, Mast must weigh its choices between purchases made in the United States and those made abroad. In fact, about 25 percent of our product is sourced in the United States, and our domestic production is growing at least as fast as our imports. We have always been dedicated to buying product in the most appropriate market, and we continue to purchase from those segments of the U.S. textile and apparel industries (fabrics, hosiery, jeans, pants and shirts, to name a few) which strive to be both efficient and competitive. We are substantial users of domestic textiles, which are then converted into apparel products in U.S. factories as well as in offshore factories. As American textile producers have become more responsive to our needs, business with them has been growing. The same will be true with regard to the American apparel producers—as they become more responsive and efficient—their business will also improve.

Responsiveness is no trifling matter, since our business views the world in terms of what the American consumer wants—not what we as manufacturers would prefer to make nor what our legislators would prescribe. Consumers are today more discriminating than ever. They recognize and want high-quality, fashionable garments at reasonable prices. At times, fashion will dictate highly constructed garments which would not be appropriate to make in the U.S. The reason for this is that garments of complex construction are labor-intensive, with high U.S. labor costs creating a disadvantage for the domestic apparel industry and low labor costs creating a natural advantage for foreign producers. The U.S. apparel industry, on the other hand, is able to exploit its own natural advantage in connection with less complicated garments: Because of its proximity to the domestic market, it can communicate more quickly with customers, respond to their needs with faster deliveries than is possible from overseas markets, and compete price-effectively.

It follows then that the domestic textile industry should be exceptionally competitive in the world market in that it is capital-intensive, which makes it a natural industry for the U.S. Hence, if the United States wishes to place its resources where it will do the most good, we believe the domestic textile industry would be worth nurturing for long-term viability. We could accomplish this by simply amending Item 807.00 of the Tariff Schedules of the United States. Item 807.00 provides that articles assembled abroad in whole or in part of U.S. fabricated components are dutiable upon reimportation based upon the full value of the article less the cost or value of the U.S. components. To qualify under Item 807.00, textiles have to be cut in the U.S. before they are exported for assembly abroad. If you broaden Item 807.00 by eliminating the U.S. cutting requirement (which, incidentally, is not a labor intensive operation), then very competitive American textile products, such as corduroys, denims, velveteens and polyesters, could be shipped abroad and reimported in apparel form, with duty paid only on the added value. Clearly the domestic industry would be best served by free trade measures such as this, rather than less desirable protectionist legislation which would rankle the international community. This would be a spur to the domestic textile industry, which is presently troubled more by the strong U.S. dollar, rather than by low wage rates overseas.

Proponents of H.R. 1562 have claimed that the comparative advantage of lower overseas labor costs has resulted in larger profit margins for the retailers, who allegedly are not passing cost savings on to American consumers. This simply is not true. It is the previously mentioned tariffs and import restraints under the MFA which sharply reduce such profit margins. One has only to pick up the July 5th Wall Street Journal to learn that retailers suffered a bad second quarter, and that three of the last four quarters have been dismal. So much for the allegation of huge retailers' profits.

In any event, the domestic textile and domestic apparel industries are unable to produce *every* textile and apparel product demanded by American consumers. Foreign manufacturers fill a need, be it price, quality, or fashion. American consumers want, and deserve, a choice. If the Congress goes ahead and further restricts the market through more drastic quota reductions, then the prices on those affected imported products will rise higher than some consumers are able to pay. This is certainly not in the best interest of the American consumer or other workers who benefit from international trade.

Notwithstanding the troubled U.S. retail industry and current protectionist measures, H.R. 1562 would impose new stringent quotas and cutbacks through a global quota system, creating an arbitrary dichotomy between "major" exporting countries and smaller exporting countries. A major exporting country is defined as a country capturing 1.25 percent or more of U.S. imports in 1984, which amounts to just one-quarter of one percent of the U.S. market. Major exporting countries will only be allowed one percent per year growth on a base significantly reduced from their 1984 levels of trade. Not surprisingly, many so-called "major" exporting countries will see their trade plummet, as well as future growth curtailed. Textile and apparel exports from Brazil, for example, would be reduced by more than 58 percent, while similar exports from Indonesia would be reduced by 72 percent. Such reductions do not occur within a vacuum: When one considers the heavy debt obligations owed to the U.S. by some of the major exporting countries, the curtailment of their textile and apparel exports has an indirect, adverse impact on the U.S. economy.

While the global quota legislation has unpleasant consequences for exporting countries with more developed economies, the legislation threatens further economic hardship for poverty-stricken countries like Bangladesh, Sri Lanka, and India. The textile and apparel industries are a natural industrial opportunity—indeed in most cases the first industrial opportunity—for developing countries. To crush the opportunity to develop their natural base with harsh restrictive legislation will inevitably depress the economic ability and will of those countries to trade with us in agricultural and those industrial products which are *our* natural base.

The smaller exporting countries, those capturing less than 1.25 percent of U.S. imports, ostensibly are given better treatment than major exporting countries. The legislation would allow them a 15 percent growth rate in 1985 and a 6 percent growth rate thereafter on some products. With the exception of articles from Caribbean countries and Mexico, however, all "import sensitive" articles would be restricted to the same 1 percent yearly growth rate as other exporting countries. Inasmuch as import sensitive categories account for 40 percent of textile and apparel imports, and 60 percent of apparel imports alone, smaller exporting countries will only receive a 1 percent growth rate for many of their exports. Given the small base that they presently have, and the introduction of new quotas on products not previously controlled, the "better treatment" accorded to the smaller exporting countries becomes illusory upon closer inspection.

Another defect in the legislation is its flagrant disregard of international agreements, painstakingly negotiated over many years. Passage of H.R. 1562 would be tantamount to an announcement by the United States to the world community that it is henceforth abrogating the Multifiber Arrangement, other bilateral textile agreements, and the GATT. The Reagan Administration realizes that it cannot unilaterally reduce quota levels at this late date without contravening these agreements. The Administration, through its Cabinet-level Economic Policy Council, has castigated the proposed legislation, citing, among other things, the bill's violation of our international obligations.

This complete disregard of our international commitments will not be without significant repercussions. The proposed bill sadly seems to invite retaliation from abroad. We know through past experience that countries such as China will respond with agricultural embargoes. In the not too distant past, the U.S. expressed its desire to expand its trade relationship with China. Legislation that would unilaterally cut back textile and apparel imports from China by as much as 56 percent would be a major setback to this relationship; and given the bad feelings engendered by the promulgation of the recent Customs country of origin rules, the legislation would be viewed by the Chinese as "adding insult to injury". In addition to agricultural embargoes, an impact will be felt on a broad range of individually competitive industries, including high-tech electronics. Many of the developing countries targeted by this bill represent major opportunities for U.S. export growth-opportunities that could be lost through foreign retaliatory measures.

Foreign retaliation means more than lost U.S. export opportunities: It also translates into a loss of American jobs. Many U.S. jobs depend upon international commerce, such as those associated with shipping, warehousing, retailing, wholesaling, manufacturing, banking and telecommunications. In short, the notion that protection saves jobs is a fallacious one.

Protecting market share by a stringent quota system is, rather, an expensive method to maintain jobs. The Federal Trade Commission has estimated that textile jobs protected by quota arrangements cost the U.S. economy roughly $35,000 for each job protected. Adjustment assistance and retraining programs for displaced workers seem less expensive, and a more permanent solution.

And who pays the price for the subsidization of these textile jobs and for the stringent quotas? The U.S. consumer, naturally. As previously mentioned, it is an unfortunate fact of life that such costs are passed on to the consumer. In a nutshell, quotas mean higher prices for U.S. consumers. And unreasonably restrictive quotas mean even higher prices. Recent experience with the Japanese automobile quota system proved this economic truism.

In addition to bearing the cost of subsidizing textile jobs and of stringent quotas, the American consumer is walloped again by H.R. 1562's creation of an import licensing system. Aside from the inevitable consumer costs, a licensing system would create a bureaucratic nightmare for importers and an administrative nightmare for Customs import specialists at the ports. The taxpayers, too, would have to pay for additional manpower at the Department of Commerce, the agency in charge of administering the licensing system.

It is the consumer, again, who suffers at one of the most ill-conceived provisions of H.R. 1562—the provision which would include non-MFA fibers such as silk, ramie, and linen, within the quota scheme. A reduction to imports of these materials would only harm American consumers since silk, linen and ramie have never been domestically produced in large quantities. Imports of these products have never harmed U.S. manufacturers. Hence this provision should be dropped immediately.

The Limited's concern is that, notwithstanding the American consumer's desire for choice, United States trade policy is drifting into the hands of extremists. As the world's largest and still the most efficient and productive country, we clearly stand to reap the largest benefit from a broad and fair free trade system, and will lose the most from unrestrained protectionism.

Admittedly, many Americans believe that other countries are taking advantage of us. These feelings make it harder for those who want maximum liberalism in trade arrangements to defend their position against narrow protectionist interests. Ironically, certain countries perceived as least cooperative in liberalized trade, such as the European Economic Community, are exempted from coverage. On the other hand, the ones who will be hurt are precisely those developing countries like China, and those small emerging entrepreneurial economies like Hong Kong and Singapore, who have worked most diligently to achieve a fair, mutually beneficial, and expanding trade base.

With respect, The Limited believes that what really is needed is a trade policy that will fight with patience for the responsible high ground: A policy that will work with equal vigor for continuing trade liberalization to the benefit of all countries—but most clearly the United States—and the tough elimination of unfair discrimination against U.S. exports. Such a policy renders unnecessary legislation reminiscent of Smoot-Hawley and its mutually destructive trade wars. Within our desired trade policy, there is plenty of room to provide targeted support for those segments of American industry, including textiles, which, while currently troubled, can look to survive profitably into the 21st Century. Every state in the Union would benefit from such a responsible trade policy. It is manifestly clear that the Textile and Apparel Trade Enforcement Act of 1985 has none of the characteristics of such a policy.

Thank you.

SUMMARY

1. H.R. 1562 is a costly protectionist measure transparently masquerading as a trade enforcement measure. It not only threatens to impose further harm on an already troubled U.S. retail industry, but seriously threatens the deficit-plagued U.S. economy and debt-ridden economies of foreign nations trying to develop.

2. In singling out import competition as the perpetrator of their suffering, the domestic textile and apparel industries have glossed over the obvious problems of an all too strong dollar as well as weak, non-imaginative U.S. industry management. When one considers the *individual* problems of the domestic textile and apparel industries, in light of consumer supply and demand, a more balanced perspective comes to light. In order to achieve a proper analysis of issues, we must clearly distinguish between the textile and apparel industries.

3. A free-trade measures, such as an expansion of Item 807.00 of the Tariff Schedules of the United States, is a far more suitable way of assisting the domestic textile industry than the protectionist legislation, which certainly will have adverse consequences within the international trade community.

4. Inasmuch as the domestic apparel industry is unable to produce *every* apparel product demanded by American consumers, foreign manufacturers fill an important need, be it price, quality, or fashion. H.R. 1562's new stringent quotas and cutbacks will cause imported goods to rise in price. This is not in the American public's interest.

5. H.R. 1562's curtailment of foreign apparel exports has an adverse impact on the U.S. economy, given the heavy debt obligations owed to the U.S. by targeted foreign countries, and the ensuing inability of foreign countries to purchase U.S. exports of certain industrial and agricultural products. The flagrant disregard of our international agreements will invite foreign retaliation, and result in the loss of American jobs.

6. The American consumer currently shoulders the burden of subsidizing U.S. textile jobs and stringent MFA quotas. The Federal Trade Commission has estimated that textile jobs protected by quota arrangement cost the U.S. economy roughly $35,000 for each job protected. H.R. 1562 unfairly would add to this burden with new quotas and cutbacks, an export licensing system, and extended coverage to non-MFA fibers.

7. What is needed is a responsible trade policy that will work with equal vigor for continuing trade liberalization to the benefit of all countries—but most clearly the United States—and the tough elimination of unfair discrimination against U.S. exports. It is manifestly clear that the Textile and Apparel Trade Enforcement Act of 1985 has none of the characteristics of such a policy.

STATEMENT OF HERBERT SCHLESINGER, PRESIDENT, AND ROBERT K. ERMATINGER, EXECUTIVE VICE PRESIDENT, LUGGAGE & LEATHER GOODS MANUFACTURERS OF AMERICA, INC.

INTRODUCTION

This statement is submitted by the Luggage and Leather Goods Manufacturers of America, Inc. (LLGMA), the trade association representing domestic manufacturers of luggage, business cases, and personal leather goods. Our members manufacture these items from textile materials of man-made fiber (mostly nylon) and cotton, and from leather, vinyl or plastic. These textile products manufactured by our industries are covered by the Multifiber Arrangement (MFA).

The LLGMA supports H.R. 1562, the Textile and Apparel Trade Enforcement Act of 1985. Our support arises from the burgeoning import volume of man-made fiber textile luggage and flat goods, and the frustration we have shared with the other textile and apparel sectors over inadequate administration of the Multifiber Arrangement by the Executive Branch. The growth in imports of textile luggage and flat goods, as is the case with other textile products, has been unacceptably high. The reductions in import levels proposed in H.R. 1562 are the only solution to the problem of unrelenting import growth of textiles and apparel.

However, while the LLGMA and its members support H.R. 1562, we are seeking a minor amendment to the bill insofar as it affects textile luggage and flat goods which are currently subject to specific limits under bilateral agreements. The amendment, limited only to these two products, would substitute for the quota formula in the bill for major exporting countries (which uses 1980 as the base year) the actual quota levels in effect as of the date of enactment of the legislation. All other provisions of H.R. 1562 would apply. At the present time only man-made fiber luggage from Taiwan and Korea and man-made fiber flat goods from Taiwan would be subject to the amendment.

This amendment is necessary because of the unique circumstances of the luggage and personal leather goods industries relative to the rest of the textile/apparel sector. Our products were added to those covered by the MFA only on January 1, 1982. Before that time, there were simply insufficient volumes of man-made fiber luggage and flat goods to warrant attention under the MFA. The tremendous growth in imports of man-made fiber luggage and flat goods occurred in 1983 and 1984. Therefore, application of the formula in H.R. 1562, which uses 1980 as a base for major exporting countries, would result in massive cutbacks of imports of man-made fiber luggage and flat goods from Taiwan and Korea. It would use as a base a year in which imports of man-made fiber luggage and flat goods were not considered covered by the MFA. We estimate that imports of man-made fiber luggage from Taiwan would be cut back by 60 percent and imports of the same product from Korea by 75 percent if the formula in the legislation is applied. We cannot be unmindful of the impact this would have on those of our members who began to import before any restraints were imposed on Taiwan or Korea, or, indeed, before any restraints were thought possible under the MFA. It is our understanding that no other textile or apparel segment or product would be faced with such a massive reduction in import levels by applying the quota formula using 1980 as a base insofar as major exporting countries are concerned.

IMPORT GROWTH IN TEXTILE LUGGAGE AND FLAT GOODS

Imports of textile luggage and flat goods, like imports of other textile products have experienced an astounding growth in recent years. Overall, textile and apparel imports grew by 32 percent in 1984, following a 25 percent increase in 1983. Imports of textile luggage by comparison, jumped by almost 50 percent between 1983 and 1984 alone.

LUGGAGE

U.S. imports of textile luggage have experienced a meteoric rise in just the last few years, with luggage of man-made fibers accounting for the vast majority of textile luggage imports. In dollar terms, imports in 1984 were almost five times the level that existed in 1980.

Imports of man-made fiber luggage grew from an estimated 63 million pounds in 1982 to 140.5 million pounds in 1984, an increase of 123 percent in just two years. Imports of man-made fiber luggage in 1984 represented about 281 million square yard equivalents, according to Department of Commerce data. Taiwan and Korea combined accounted for about 90 percent of the man-made fiber textile luggage imported into the United States in 1984.

During this period of incredible import growth, U.S. market demand grew to some extent, but imports captured all of the market growth and more. Available data indicate that domestic production of man-made fiber luggage (as measured by man-made fiber materials consumed in the production of luggage) fell by about 10 percent between 1981 and 1983. It is estimated that imports have captured as much as 80 percent of the market for textile luggage.

The U.S. luggage industry competes not only with imports of textile luggage but with imports of luggage of other materials as well. Notably, imports of textile luggage have largely been in addition to, rather than in place of, imports of luggage of other materials which have also increased significantly. In 1984, textile luggage imports accounted for 60 percent of the dollar value of all luggage imports.

Overall, import penetration for luggage of all materials is currently estimated to be about 55 percent.

FLAT GOODS

U.S. imports of textile flat goods, while not as large as imports of luggage, have followed a similar pattern of large growth. In dollar terms, imports in 1984 were more than double the level that existed in 1980.

In terms of pounds, imports of man-made fiber textile flat goods grew from an estimated 4.2 million pounds in 1982 to 6.7 million pounds in 1984, an increase of 60 percent. Taiwan alone accounts for about 55 percent of the textile flat goods imported into the United States.

The U.S. market for textile flat goods, and specifically for nylon wallets, was developed by the U.S. manufacturers entering the market with an innovative product. The product was rapidly copied by suppliers from the Far East, particularly Taiwan. Thus, the import growth came largely at the expense of domestic production. The result has been virtually a complete loss of U.S. market share to imports.

As in luggage, the growth in imports of textile flat goods has largely been on top of imports of flat goods of other materials, which have also grown significantly. In 1984, textile flat goods imports accounted for 27 percent of the dollar value of all flat goods imports.

Overall, import penetration in the market for flat goods of all materials is currently estimated to be about 35 percent.

IMPORT RESTRAINTS ON MAN-MADE FIBER TEXTILE LUGGAGE AND FLAT GOODS

The LLGMA has sought a solution to the growing import problem affecting its members' textile products through the Multifiber Arrangement. Like other domestic textile and apparel organizations we have experienced first hand the ineffectiveness of the implementation of U.S. participation in the MFA.

After much effort, in 1984, the LLGMA, working with other member organizations of the AFTAC coalition, succeeded in getting man-made fiber textile luggage from Taiwan and Korea and man-made fiber flat goods from Taiwan under restraint. The import levels originally imposed represented the normal restraint formula used by the Administration—import levels based on the first twelve of the last fourteen months prior to the month in which the call is made. As is often the case when a new product is brought under restraint for the first time, there was considerable disruption in the market during 1984. However, as domestic manufacturers were able to expand production, and the 1985 import restraint levels were agreed upon, market uncertainty was replaced by certainty as to the level of imports in 1985. As appropriate, the level of man-made fiber textile luggage imports under the bilateral agreements in 1985 represent a substantial reduction in imports from 1984 levels.

Nevertheless, the LLGMA, like other segments of the textile and apparel industry, has its own series of "horror" stories regarding administration of the MFA.

We have been frustrated with the tardiness of the "calls" made by the Administration. The "calls" on man-made fiber luggage and flat goods were delayed time and time again, during which period imports continued to grow dramatically.

There currently exists a loophole in the quota on man-made fiber luggage from Korea which is undermining the existing restraint. Imports of braided man-made fiber luggage from Korea are not restrained, while imports of the same product without braid are restrained. Action was taken with Taiwan to close this loophole with regard to imports from that country, but braided luggage from Korea remains uncontrolled and imports are rising. Allowing this gaping loophole to continue makes a sham of the existing restraint.

We are also currently concerned about the Administration's failure to include the People's Republic of China among the "calls" made to date. With imports of man-made fiber luggage from Taiwan and Korea already under restraint, imports from the PRC, not surprisingly, have grown quickly. Imports from the PRC increased more than ten-fold in the first five months of 1985 compared to the same period in 1984. The PRC is now the third largest supplier of man-made fiber luggage to the U.S. market, accounting for 12 percent of imports (in terms of pounds) in the first five months of this year. For the quota program to be effective, "calls" must be made in a timely fashion. Further, rapidly growing third country suppliers (i.e., PRC in this case) must be controlled if the existing restraints (i.e., on Taiwan and Korea in this case) are to be effective.

We just recently found out about a most disturbing action taken by the Administration with respect to the existing restraint on imports of man-made fiber luggage from Korea. The action relates to the handling of a substantial volume of overshipments from Korea.

In 1984, the U.S. negotiated a quota agreement with Korea that provided very generous terms; 34 million pounds were allowed to enter in 1984 against a quota for the ten months March-December 1984 of 25.6 million pounds and the initial call level of 18.4 million pounds. Nevertheless, Korea proceeded to overship even this generous 1984 quota by almost 1.7 million pounds. These imports were exported from Korea during 1984, but did not enter the U.S. market until this year.

Rather than punishing the Koreans for this flagrant violation of the agreement, U.S. negotiators made a secret agreement with them, which included two additional concessions on the part of the United States. First, the U.S. decided to allow the Koreans "swing" of 3.5 percent from other unfilled quotas, which allowed forgiveness of about 900,000 pounds. Inclusion of any swing had been specifically rejected in the original agreement because of the high level of the agreed upon quota. Second, the U.S. decided to spread the remaining 800,000 pounds of overshipments over three years (one-third in each of 1985, 1986, and 1987), thereby further undermining the quota for 1985 by allowing more than 500,000 pounds to enter the market uncounted against the quota limits.

This series of actions was taken without any consultations with the industry and, indeed without consulting any of the members of the domestic industries involved. Nor was any of this information released publicly until last month, despite the fact that this matter apparently dates back to December 1984.

These are prime examples of why the Executive Branch is under fire from the U.S. textile and apparel industry for its administration of the textile import program and its inability to control imports.

CONCLUSION

The LLGMA wishes to reiterate its strong support of the Textile and Apparel Trade Enforcement Act of 1985. The U.S. textile and apparel industry needs a comprehensive program to roll back absurdly high import levels. Our proposed amendment is not to exempt textile luggage and flat goods from the provisions of the bill, but merely to take into consideration the unique circumstances of these products in determining a base year for the quotas.

We urge the Subcommittee to give its fullest support to H.R. 1562, but at the same time, to accept the modification proposed by the LLGMA.

APRIL 6, 1985.

To Whom It May Concern:

I have grown up in an Avondale family and understand the feelings that so many people are having with the closing of so many mills.

We of Avondale have always depended on the executives to take care of us. This has been a failing on our part and one that needs to be corrected if we are to survive as a company with any future. I have heard so much about imports and what they are doing to the textile industry. I do not believe this is the sole cause of our problems. We all share in the closing of our plants. Because we have allowed apathy to rule our lives on our jobs, our work has been affected, causing an inferior quality of goods. This is one area where we have failed the executives of Avondale.

The executives of Avondale have not inspired trust in their employees and this has added to the inferior quality of production. It seems to me that there is not a working together relationship among the ones in charge of management. In the past, employees of Avondale have worked for the executives and have had pride in their work. To me, this is the basic problem facing management today. I see mistrust within management at all levels. Avondale has lost that "family" feeling. This is a quality that is earned and those in charge need to first show trust in each other and maybe then those they are in charge of will learn to trust them and their decisions.

It is hard to work for the good of the company when so few seem to be trying. It will take cooperation from all Avondale associates to fight this threat to our industry.

Now, I would like to address the representatives of our government. I have heard all my life about the threat of foreign imports on our economy. I have heard "write your congressmen and representatives" and get something done. Well, I have seen this done and there has not been any changes made by the powers that rule. Therein, lies another failure on our part to follow up with active participation at the polls to replace elected officials who do not heed the desires of the people they represent and fight for their welfare. I know this letter sounds like I am accusing everyone else for the troubles we are facing today, but the one I hold to blame most is me. If I had not set back and left the workings of government to someone else, maybe things would have turned out better for the communities that have felt most the closing down of mills. Places like Sycamore have been hit the hardest by lack of participation on all levels. While it may be too late to do anything about Sycamore and other plants affected by closings, it is not too late to do something about Avondale and any other company threatened by foreign imports. I believe the problem can only be corrected by active cooperation by all concerned to control imports to the point of preservation of our livelihood.

In parting, I would like to thank you for listening to me and hope that some of the things I have said might give you some insight on the feelings of many I have talked to before writing this letter.

Yours in faith of a brighter future,

SARAH MCGRADY.

STATEMENT OF HON. J. ALEX MCMILLAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA

Mr. Chairman: I am Rep. Alex McMillan of the 9th District of North Carolina. The principal city is Charlotte which serves as the financial and service center for North and South Carolina.

My district is in the center of the textile and apparel industries of the Carolinas which employs 485,000 people with an annual payroll of $6,300,000.00 despite losing 20,000 workers last year. That industry has withstood subsidized imports beginning with Japan years ago and today faces a renewed crisis from subsidized imports from relatively new entries in the game. It has responded by making the surviving industry the most modern and productive in the world.

Saturday night, I was talking to a young friend of my son's, whose father is also one of my closest friends. This 22 year-old is a rising senior at N.C. State majoring in Textile management. His father is Vice President of Sales for the most efficient yarn producer in the U.S. His grandparents and great grandparents were pioneers in the textile industry in America.

He asked, "Are we going to be able to save the textile industry in America?" "If not, I better look for something else."

That answer is in our hands.

He and I know that:

The textile industry employs directly 2,000,000 Americans.

That imports have grown 19% per year for four years, 32% last year.

That we are likely to run a trade deficit of $150 billion this year, probably over $16 billion of that in textiles.

That textiles play a vital importance in the strategic industrial base of America.

That while our trade deficit equals almost 4% of GNP, a year's worth of growth, yet it is not counted as such and that import related job losses contribute heavily to high unemployment rates.

That textiles does not stand alone a victim of trade subsidies—with over 100 major industries adversely effected.

The fact of the matter is that the textile and apparel industries are so widespread, and rely on so many suppliers, that almost every Member of the Congress has an interest in the industries' survival. In rural areas of West Texas and Montana, wool growers supply plants in North Carolina and New England. Machinery manufacturers in Massachusetts depend on a strong domestic textile industry. Chemicals produced in New Jersey and Chicago form the raw materials, along with cotton from California, Texas, and Mississippi, for mills in the western seaboard states, North and South. This is not a regional problem.

He and most textile people I know emphatically believe in free and fair trade on a level playing field.

The fact is we don't have free or fair trade:

When our trading partners can subsidize exports to the U.S. through tax concessions, regulatory ease, low interest loans, direct subsidy and sheer product targeting.

When our trading partners restrict U.S. imports to their countries while exporting freely to the U.S.

S. 680 and H.R. 1562 are designed to restore and enforce the principles agreed to under the Multi Fiber Agreement of 1981, negotiated in accord with the General Agreements on Tariffs and Trade. They provide ample opportunity for our trading partners to grow with the American market, yet provide a measure to order to the process so vital to our economy, our strategic industrial base and 2,000,000 American jobs.

But the Textile and Apparel Trade Enforcement Act of 1985 is only an important but intermediate remedy.

If Americans truly believe in free and fair trade in the long-run, and if our trading partners show that belief, then we better provide an orderly process to get there.

This bill provides one step, as will others directed to other impacted industries.

In the long-run we must consider broader legislation that first reaffirms our commitment to free unrestrained trade but provides a mechanism to offset foreign subsidies (expecting our trading partners to do likewise) and stand willing to immediately remove such mechanisms when subsidies cease. The burden of proof should be on the exporter. Moreover, we must insist that our markets will be open only to those who open theirs.

Gentlemen, let's give at least equal weight to the hopes and aspirations of 2,000,000 Americans and my young 22-year-old friend.

I urge you to give favorable consideration to S. 680.

STATEMENT OF CHARLES E. GARNETT, GENERAL MANAGER, MOUNT VERNON MILLS, INC.

The Tallassee community and all employees of Mount Vernon Mills, Inc., Tallassee Division, are very concerned with the deluge of imports of textile products into the United States.

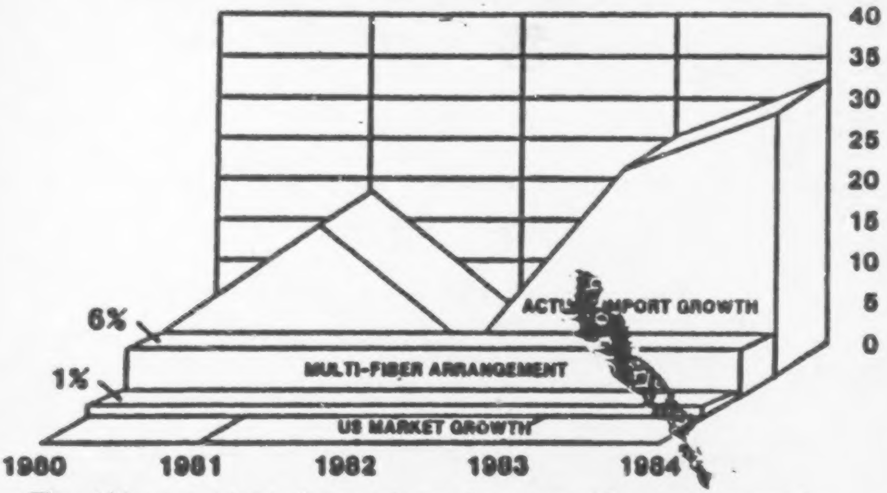
We have already witnessed, first hand, the effect that it has had on the devoted employees of textile companies and their communities. In 1983, we lost approximately 800 employees here in Tallassee due to the influx of imports of textile products. It has been very difficult for our employees and the entire community to overcome this trauma.

The situation is becoming critical. In 1983, imports increased by 25% to 7.4 billion square yards and, in 1984, increased 32% over the 1983 level to an all-time record level of 9.8 billion square yards. In Alabama, from January 1984 to January 1985, 8,300 jobs have been lost in the textile and apparel industry.

The textile and apparel industry cannot win this battle without the help of our senators and members of the House of Representatives fighting to get legislation passed that will limit the amount of imports of textile and apparel goods.

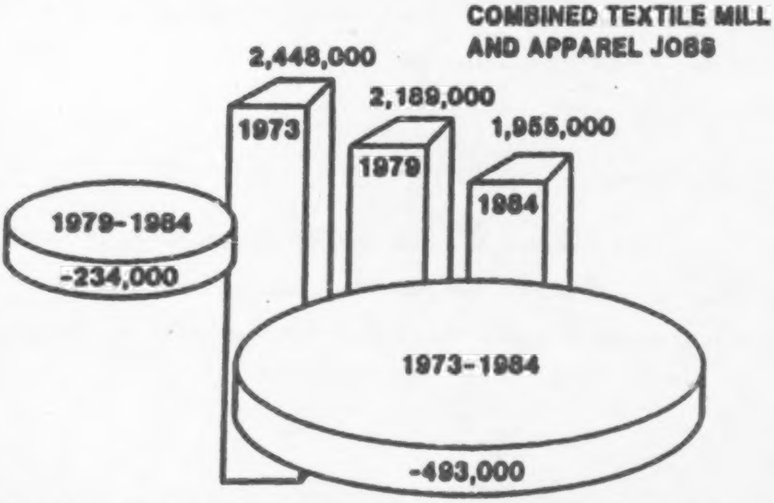
The textile and apparel industry is still one of the largest in the United States. Almost two million people are still employed by the textile and apparel industry. We solicit your help in maintaining our textile and apparel industry and the livelihood of its two million employees.

IMPORT SURGES DISRUPT U.S. ECONOMY



The illustration above shows how textile and apparel imports far exceeded Multi Fiber Arrangement levels, resulting in market disruption. The charts on this page were prepared for introduction of the trade bill.

HALF MILLION JOBS LOST



This chart vividly brings home the painful cost of imports on textile and apparel workers, nearly 500,000 of whom have lost their jobs from 1973 through 1984.

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF TALLASSEE, ALABAMA, AS FOLLOWS:

WHEREAS, the Mayor and Council of the City of Tallassee, Alabama, note with utmost regret that the import projections made by the American Textile Manufacturers Institute in early 1983 and 1984, have come to pass. Imports in 1983 increased by 25 percent to 7.4 billion square yards and in 1984 increased 32 percent over the 1983 level to an all-time record level of 9.8 billion square yards. These increases have resulted in the loss of thousands of jobs for American textile and apparel workers and recently caused the closing of the oldest textile company in the United States.

In Alabama, seven textile mills have closed since October 1984, leaving 1,688 people without jobs. Concurrently, many other jobs were lost due to partial plant closings and reductions in work force.

Record imports have cost the nation not only these jobs but thousands of other jobs in related industries. The jobs of tens of thousands more are presently at risk due to the ever increasing flood of imports.

This deluge of imports is the result of a combination of circumstances beyond the industry's control, including an overvalued dollar, heavy government regulation, and an inadequate textile import control program that must be strengthened. Furthermore, foreign competitors are often producing fabrics under conditions that would be illegal in the United States.

In view of these circumstances, it is obvious that immediate corrective actions must be taken.

Since the framework of trade, fiscal and economic policies are set by our federal government and since the domestic textile and apparel industry must manufacture and market within that framework, only the federal government can provide solutions for these problems being addressed in this Resolution.

WHEREAS, the Mayor and Council of the City of Tallassee, Alabama, recognize the importance of the textile industry to the economy of the City of Tallassee, Alabama, the greater Tallassee area, and the entire State. The state textile and apparel plants employ thousands of people, with an average annual payroll in the millions of dollars.

WHEREAS, the Mayor and members of the Council wish to express their concern for the far-reaching effects the increases in textile and apparel imports are currently having and will continue to have on the economy of our community and the nation. The loss of textile and apparel jobs due to increased imports will trigger job losses and other problems in related industries and businesses in textile communities such as ours. The effects will be felt in varied activities such as health care, banking, real estate and retail sales.

THEREFORE, BE IT RESOLVED that the Mayor and Council of the City of Tallassee, Alabama, hereby request that our Federal Government establish and enforce import quotas not to exceed the 1982 level, and with annual percentage increases not to exceed domestic textile and apparel market growth. This will meet reasonable international obligations. Concurrently, some relief will be afforded the textile and apparel industry which is the very lifeblood of this and many other communities, otherwise these communities and the nation will suffer dramatic setbacks as the textile and apparel industry is sacrificed to overseas producers located in third world countries.

ADOPTED AND APPROVED THIS THE 25 DAY OF March, 1985.

Thomas W. Pollard

Thomas W. Pollard, Mayor

Truett A Grant
Truett A. Grant, Councilmember

James E. Mann
James E. Mann, Councilmember

Robert E. Payne, Councilmember

John T. Redden
John T. Redden, Councilmember

James V. Vaught
James V. Vaught, Councilmember

ATTEST:

Betty Elrod
Betty Elrod, City Clerk

IMPACT OF FOREIGN IMPORTS ON ALABAMA TEXTILE PLANT CLOSINGS - LOSS OF JOBS 1979 THROUGH FEBRUARY 1985

Company	Location	Date Closed	Lost Jobs
Avondale Mills	Ozark	1979	92
Siluria Mills	Siluria	1979	452
Cordova Mills	Cordova	1979	151
Avondale Mills	Eufaula	1980	90
Monsanto Textiles	Guntersville	1981	1,100
Huntsville Mfg. (Partial Closing)	Huntsville	1982	260
Avondale Mills	Union Springs	1982	114
Standard-Coosa-Thatcher	Guntersville	1982	198
FabricsAmerica	Enterprise	1982	394
J. P. Stevens	Montgomery	1983	590
Dan River Mills	Greenville	1983	193
Mount Vernon (Partial Closing)	Tallassee	1983	600
Avondale Mills	Sycamore	10/84	250
Crompton Company	Leesburg	10/84	480
Talladega Mfg.	Talladega	11/84	310
Avondale-Cowikee	Eufaula	11/84	250
Avondale-Central	Sylacauga	11/84	84
Adelaide Mills	Anniston	11/84	230
Avondale Mills	LaFayette	2/85	84

Alabama Industrial Relations reports the following employment/job losses during the period January 1984 to January 1985. This includes plant closings and job losses due to reductions in work force.

	Employment			
	Textiles	Fiber Producers	Apparel	Totals
January 1984	40,400	3,000	55,800	99,200
January 1985	36,400	2,500	32,000	70,900
Jobs Lost	4,000	500	3,800	8,300

MOUNT VERNON MILLS, INC.

RECEIVED
APR 19

April 14, 1982

Mr. Marvin M. Fooks, Director
Office of Trade Adjustment Assistance
Bureau of International Labor Affairs
U. S. Department of Labor
200 Constitution Avenue
Washington, D. C. 20210

Dear Mr. Fooks:

On Monday, March 28, 1982, Mount Vernon Mills, Inc. announced the decision to discontinue operation of the Industrial Mill of the Tallassee Division, Tallassee, Alabama. This permanent curtailment will result in the layoff of approximately 600 of the division's 1,125 employees by May 30, 1982. Coupled with a reduction in our Industrial Mill beginning last August, this will mean approximately 810 employees have or will be affected by permanent layoff.

We believe the substantial cause for this tragic loss of employment in a community of approximately 4,700 people has been the increase in imports of Industrial Fabrics. On this basis, we submit in behalf of our employees the attached Petition For Adjustment Assistance under the Trade Act of 1974.

Since more than 200 employees have already been affected, we are hopeful consideration of our petition may be expedited. We are fortunate to have such an opportunity of assistance for our people and look forward to a favorable response from your office.

Yours very truly,

MOUNT VERNON MILLS, INC.
TALLASSEE DIVISION

Charles E. Garnett

Charles E. Garnett
General Manager

CEG:hf
Enclosures

cc: ~~Congressman Bill Nichols~~
Mr. Fred Denton, Alabama Development Office
Mr. Wendell Peek, Trade Act Coordinator
Mr. J. L. Jennings, Jr. - Greenville
Mr. W. H. Carroll - New York
Mr. George Thomas - New York

Post Office Box 687, Tallassee, Alabama 36078 Tel: 205-283-6501

Please feel free to contact us if additional information is required.

Yours very truly,

MOUNT VERNON MILLS, INC.
TALLASSEE DIVISION

Charles E. Garnett

Charles E. Garnett
General Manager

CEG:hf
Enclosures

cc: Congressman Bill Nichols
Mr. Wendell Peck, Trade Act Coordinator
Mr. J. L. Jennings, Jr. - Greenville
Mr. B. M. Stough
Mr. Rodney Griffith
Mr. Hollis Mann

MOUNT VERNON MILLS, INC.

January 21, 1983

Mr. Marvin M. Fooks, Director
Office of Trade Adjustment Assistance
Bureau of International Labor Affairs
U. S. Department of Labor
200 Constitution Avenue
Washington, D. C. 20210

Dear Mr. Fooks:

On April 14, 1982, we submitted a Petition for Adjustment Assistance under the Trade Act of 1974 in behalf of over 800 of our employees affected by the closing of the Industrial Mill of the Tallassee Division of Mount Vernon Mills, Inc. This petition was certified on November 23, 1982 (TA-W-13,431) covering Industrial Mill employees terminated from July 1, 1981 through September 31, 1982. After May 1982, which marked the closing of the Industrial Mill as a unit, we continued to weave some industrial fabrics in conjunction with the Print Mill, or Printcloth Fabric Unit, which was already on a reduced production schedule due to import price pressure.

Continuing competition from imported printcloth and industrial fabrics has forced us to gradually reduce the size of our mill even further, affecting employees engaged in the production of both industrial and printcloth fabrics. On December 1, 1982, we announced what we hope will be the last major reduction, that being to discontinue weaving production and associated yarn production of 45% of the original printcloth unit, 38% of which had already been closed earlier in 1982. The major layoffs have already occurred, but a few more will occur until mid 1983 due to gradual realignment of mill processes geared to operate the remaining weaving operation.

Since the recent certification (TA-W-13,431) does not cover employees engaged in production of printcloth fabric and only covers those engaged in production of industrial fabric through September 1982, we herein submit a new petition in behalf of those affected by reductions in the production of both products, yet not already eligible for assistance under TA-W-13,431. Imports have been the substantial cause of declines in sales and production we have experienced, so we respectfully solicit your favorable consideration of this petition.

The recent certification is doing much to aid those covered, and we are fortunate this avenue is still open to the other workers mentioned above.

NATIONAL ASSOCIATION OF HOSIERY MANUFACTURERS,
Charlotte, NC, April 22, 1985.

Mr. JOSEPH K. DOWLEY,
Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, Washington, DC.

DEAR MR. DOWLEY: The National Association of Hosiery Manufacturers (NAHM) is the trade association representing the interests of those companies in the United States that produce all types of men's, women's, and children's hosiery. Our members manufacture and market approximately 85% of all the hosiery items in this country. In our representation of the American hosiery industry, one of the most vital concerns today is the situation in international trade. We were very pleased when the House Ways and Means Subcommittee on Trade initiated hearings on current conditions in the textile and apparel industries. As a significant part of these industries, NAHM is very pleased to have this opportunity to submit comments to the Subcommittee.

In response to the Ways and Means Trade Subcommittee's hearing as announced in the Subcommittee's Press Release #3, I am submitting this letter along with additional materials in six copies.

Our industry has some very serious concerns about the apparent inability of the Multi-Fiber Arrangement (MFA), as it is currently implemented, to respond effectively and in a timely fashion to market disruption caused by imports. We have specific examples of this problem currently outstanding to which the enclosed documents will attest. On November 8, 1984, we submitted a detailed market disruption petition on several hosiery products to the Committee for the Implementation of Textile Agreements (CITA). Additional data were requested by CITA and, indeed, we conducted two industry surveys to comply with CITA's request. The additional data were submitted to CITA on February 15, 1985.

It has now been over five months since CITA has had our request before them—five months in which imports in these sensitive hosiery categories have been allowed to grow. Yet there has been no action to date on CITA's part, and we have no idea when they will act or even if they will act. This is simply an untenable situation for domestic manufacturers in the specific product sectors involved. If a call is ultimately made and quotas finally established, the product base for purposes of the quota may well have grown by such substantial proportions that very real additional damage will have been done to domestic manufacturers.

The situation facing the hosiery industry is but one example of what is happening to this country's textile and apparel industry, of which we are an integral part. This is clearly manifested in the huge increases recorded in the last two years for hosiery imports coming into this country. In 1983 and again in 1984, hosiery imports grew by more than 60% in units. The domestic hosiery industry, which was a net exporter of hosiery through 1983, is now in a deficit situation in international trade, in that more imports come in than we sell overseas.

We trust that the enclosed background documents on the hosiery situation, along with our industry's frustration over the Administration's lack of enthusiasm for implementing the provisions of the Multi-Fiber Arrangement (MFA) in regard to protecting our industries from market disruption, will serve as one good example for the Subcommittee.

NAHM is very pleased to have the opportunity to make this input. If we can provide any additional information or assistance, please do not hesitate to contact us.

Respectfully submitted,

SID SMITH,
President and Chief Executive Officer.

Enclosures.

NAHM

MARKET DISRUPTION FROM IMPORTS OF HOSIERY

Submitted:

November 8, 1984

By:

NATIONAL ASSOCIATION OF HOSIERY MANUFACTURERS
447 SOUTH SHARON AMITY ROAD
CHARLOTTE, NORTH CAROLINA 28211
Telephone: (704) 365-0913

November 8, 1984

MARKET DISRUPTION FROM IMPORTS OF HOSIERY

I. THE U.S. HOSIERY INDUSTRY AND THE GROWING IMPORT PROBLEM

The U.S. hosiery industry is one of the most capital-intensive, technologically advanced sectors of the apparel industry today. It is second to none in its level of productivity among the hosiery industries throughout the world. The industry is highly competitive and innovative in product development, continually creating new hosiery fashions, styles, and product types.

The U.S. hosiery industry produces the full range of hosiery products available in the market today. According to the product classification system created and utilized by the industry, hosiery production falls within several broad categories, or types, including footsocks, anklets, mid-calf/crew, knee highs, stockings, and pantyhose. A basic distinction is made between women's sheer or opaque hosiery, which is knit on 300 needles or more, and all other hosiery, which is knit on less than 300 needles. Women's sheer and opaque hosiery, the majority of which is pantyhose, accounted for approximately half of the total quantity of U.S. production and consumption.1/ The remainder of hosiery production falls in the categories of footsocks, anklets, mid-calf/crew, and knee-highs for men, women, and children.

Despite the competitive strengths of the hosiery industry, imports in the past two years have begun to

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1/ For a description of the various categories of hosiery as provided by the National Association of Hosiery Manufacturers (NAHM) see Appendix I.

increase sharply, particularly from developing countries. Domestic producers indicate that imported hosiery has recently become much more visible in the domestic marketplace and that most major retailers are now selling hosiery imports. One producer notes that Macy's in New York is now stocked with about 80 percent hosiery imports. Most hosiery now being imported from the Far East enters into major East and West Coast ports, such as New York, Seattle, and Los Angeles. Furthermore, domestic producers report that they are being undersold by imports in the domestic market at margins of underselling ranging from 15 percent to 25 percent.

The impact of imports is being increasingly felt not only in the more standard types of hosiery but also in fashion sensitive and high quality product areas as well. In the past, it took at least a year for new hosiery fashions to spread from the fashion centers in New York and Los Angeles to other parts of the country. Today, however, due to more aggressive and more widespread advertising in various media, other regions of the United States follow fashion trends simultaneously, or within six months at the most. This has also greatly increased the ability of imports of high fashion hosiery to quickly infiltrate the United States market.

The total quantity of hosiery imports rose from 2.3 million pairs in 1982 to 3.7 million pairs in 1983. In the first eight months of 1984, total hosiery imports surged to 4.0 million dozen, or 80 percent greater than the 2.2 million dozen imports in the same period of 1983. The near doubling of imports thus far in 1984 over comparable 1983 levels contrasts sharply with the marginal 2.5 percent increase in domestic shipments between the same periods.

Beyond the obvious implications of the sharp upward trend in imports since 1982, imports of hosiery can be expected to continue to increase based on recent reports on the developing hosiery industries in the Far East. A recent article in Fashion Accessories presented disturbing evidence indicating that further growth in imports from such sources as Korea and Taiwan will continue.[1/] Several major Taiwanese hosiery manufacturers, such as Cathay's Industries Company Ltd., Continental Knitting Industries Company Ltd., and Deluxe Hosiery Mills Company Ltd., export all their output of hosiery, and are looking to the United States as a growth market. With respect to Cathay's and Continental, in 1983 20 percent of their hosiery production went to the U.S. market, but this year these firms are trying to increase this percentage to 40 percent. These companies are also planning to speed up their rates of production through the purchase of an Italian knitting machine which is six times as fast as the equipment currently in place. Cathay's

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[1/] "Taiwan, Korea, and Singapore: Hosiery," Fashion Accessories, August 1984, pp.62-80.

and Continental plan to order at least 10 of these machines if the first one performs satisfactorily. The United States will likely be a primary target for this increased production. Similarly, the U.S. market accounted for 10 percent of Deluxe's hosiery production in 1983, but in 1984, this figure should rise to 50 percent. Clearly, Taiwanese hosiery producers are committed to increasing production and have targeted the U.S. market as an area for export growth, indicating that U.S. hosiery imports from Taiwan can be expected to rise even further. Similar emphasis of Korean hosiery exporters on the U.S. market is clear.

The sharp rise in the volume of imports in 1984 is reflected not only in increasing import penetration but also in a coincident fall in employment. Based on U.S. Bureau of Labor Statistics data, employment in SIC industry 2251 (Women's Hosiery) and SIC industry 2252 (Hosiery, Not Elsewhere Classified) has shown notable declines during 1984. Between January 1984 and July 1984, employment of all workers in these industries fell from 71,000 to 69,700, a decrease of 1,300 workers. Similarly, employment of production workers alone fell by 1,300 workers, from 64,000 in January 1984 to 62,700 in July 1984. These employment declines can be expected to worsen as the impact of market-disrupting, low-priced imports intensifies.

Despite the highly competitive and technologically advanced nature of the domestic industry, foreign hosiery manufacturers in developing countries hold an advantage over domestic hosiery producers with respect to significantly lower wage rates. The tabulation below provides data on average hourly earnings and on average hourly compensation (which includes fringe benefits) in 1982 for the textile mill products manufacturing industries (which includes hosiery production) in the United States and in several Far Eastern countries:

Textile Mill Products Manufacturing

	Average 1982 Hourly Earnings	Average 1982 Hourly Compensation
	(----------- in	dollars -------------)
United States	5.83	7.35
Taiwan	1.25	1.47
Korea	0.85	1.00
Japan	3.52	4.85

Source: Unpublished U.S. Bureau of Labor Statistics data. Latest comparative data available.

These statistics clearly show the wage rate advantage enjoyed by these Far Eastern hosiery producers. Comparable data on manufacturing wage rates in the PRC indicate an even more extreme wage advantage.

It is important to note, however, that the wages paid to textile mill workers in the United States are actually low in relation to wages paid to other U.S. manufacturing employees. Average 1982 hourly earnings of textile mill workers of $5.83 compare to average 1982 hourly earnings for all U.S. nondurable goods manufacturing workers of $7.74, and for all manufacturing workers of $8.49.

As has been the typical pattern of growing import penetration in most other manufactured products, the current surge in imports of hosiery has thus far focused on several selected hosiery products. This concentration of imports has led to sharply increased import penetration in three specific markets, and, consequently, market disruption.

The factual evidence of market disruption in these three product markets is provided in the following sections of this document. Section II presents evidence of market disruption by imports of embroidered cotton hosiery from Korea, Taiwan, Japan, and the People's Republic of China. Section III presents evidence with respect to women's, girls', and infants' ornamented knee-length and full-length man-made fiber hosiery. Section IV presents evidence with respect to ornamented man-made fiber hosiery, other than knee-length and full-length hosiery for women, girls, and infants.

These market disruption statements establish the basis for the request by the National Association of Hosiery Manufacturers (NAHM) for consultations with the countries causing market disruption. These consultations are requested for the purpose of establishing import restraint levels with these countries to prevent the worsening of the market disruption now occurring.

II. MARKET DISRUPTION BY IMPORTS OF EMBROIDERED COTTON HOISERY FROM THE PEOPLE'S REPUBLIC OF CHINA, TAIWAN, KOREA, AND JAPAN (TSUSA ITEMS 374.0500 AND 374.1000)

A. Introduction

Imports of cotton hosiery entering the United States under TSUSA items 374.0500 (cotton hosiery, embroidered, valued not over $5 per dozen) and 374.1000 (cotton hosiery, embroidered, valued over $5 per dozen) are causing market disruption in the United States. The supplying countries causing disruption are the People's Republic of China (PRC), Taiwan, Korea, and Japan.

Embroidered cotton hosiery, though available in a wide variety of styles, constitutes a unique market within the overall hosiery industry. The identifying characteristic of this hosiery is the use of embroidery as a method of ornamentation; specifically, embroidered cotton hosiery is ornamented with decorative designs in plain or fancy needlework, which sometimes takes the form of the logo of a specific brand or designer. Domestic production of these items is distributed among footsocks, anklets, mid-calf/crews, and knee-highs for infants and children (sizes 3-8½); girls, boys, and women (sizes 8-11); and men (size 10 and up). Specific products range from relatively inexpensive infants' footsocks, or booties, to relatively expensive high-fashion, fancy women's hosiery. All of these styles, however, are characterized by the use of decorative embroidery.

Imports are affecting the domestic market for embroidered cotton hosiery in all styles and price ranges. This section and the corresponding tables provide information supporting the claim of market disruption.

B. The President's Criteria For Establishing A Presumption of Market Disruption Have Been Met

Imports of embroidered cotton hosiery clearly satisfy the President's criteria for establishing a presumption of market disruption, as announced in December 1983. First, total imports rose from 80,455 dozen pairs in the year ending August 1983 to 289,601 dozen pairs in the year ending August 1984, an increase of 260 percent. This is well above the 30 percent minimum total import growth requirement. Second, the ratios of imports to domestic production in January-August 1984 for Taiwan -- 14.0 percent, Korea --3.9 percent, Japan -- 3.5 percent, and the People's Republic of China (PRC) -- 31.3 percent, were also well above the minimum of one percent which is required to establish a presumption of market disruption with respect to an individual country supplier.

C. Imports Are Rising

1. Total - All Countries

Total imports of embroidered cotton hosiery rose from 29,824 dozen pairs in 1981 to 38,961 dozen pairs in 1982, a 31 percent increase. (See Table 1 and Chart 1.) This was followed by a further 161 percent increase to 101,758 dozen pairs in 1983. Based on trends through August 1984, full year 1984 imports are estimated to surge to 450,000 dozen pairs. (See Table 1 and Chart 1.) Through August 1984, the countries which are the subject of this statement -- Taiwan, Korea, Japan, and the PRC -- accounted for 79 percent of total imports, compared to only 5 percent in 1981.

2. People's Republic of China

There were no imports of embroidered cotton hosiery from the PRC until this year. In January-August 1984, the PRC suddenly emerged as the largest supplier of this cotton hosiery, accounting for 47 percent of total imports. Imports from the PRC surged from zero in 1983 to 117,076 dozen pairs in January-August 1984, or an estimated 175,600 dozen pairs on an annualized basis. (See Table 1 and Chart 1.) The sudden emergence of a new foreign supplier of this magnitude has been very disruptive to the domestic market.

3. Taiwan

Imports from Taiwan of embroidered cotton hosiery were zero in 1981. (See Table 1 and Chart 1.) In 1982, Taiwan entered the U.S. market, shipping 596 dozen pairs of this hosiery. In 1983, however, imports from Taiwan surged to 31,516 dozen pairs, an increase of more than 5,000 percent over the 1982 level. Imports through August of 1984 were 52,230 dozen pairs, a level 219 percent greater than imports in January-August 1983 and already 66 percent greater than imports for full year 1983. Based on these trends, imports from Taiwan for all of 1984 are estimated at 100,600 dozen pairs. (See Table 1 and Chart 1.) Taiwan is the second largest supplier of this hosiery thus far in 1984, accounting for 21 percent of total imports, compared to zero in 1981.

4. Korea

Like Taiwan, Korea did not enter the U.S. market for embroidered cotton hosiery until 1982, when imports from Korea were 1,500 dozen pairs. (See Table 1 and Chart 1.) In 1983, imports from Korea surged by 847 percent to 14,208 dozen pairs. This surge has continued in 1984, with imports through August of 1984 of 14,704 pairs, which is 469 percent higher than imports in January-August 1983. Based on these trends, imports from Korea for all of 1984 are estimated to surge to 80,900 dozen pairs. (See Table 1 and Chart 1.) Thus far in 1984, Korea accounts for 6 percent of total imports, compared to zero in 1981.

5. Japan

Imports of embroidered cotton hosiery from Japan rose by 121 percent between 1981 and 1982, followed by a slight drop of 7 percent in 1983 to 3,203 dozen pairs. (See Table 1 and Chart 1.) Through August of 1984, however, imports have skyrocketed to 12,958 dozen pairs, or 5 percent of total imports. This represents an increase of 533 percent over imports in January-August 1983 and an increase of 305 percent over imports for full year 1983. Based on these trends, imports from Japan for all of 1984 are estimated to rise to 20,300 dozen pairs. (See Table 1 and Chart 1.)

D. Imports Represent A Significant Percentage Of Domestic Production

The National Association of Hosiery Manufacturers (NAHM) represents producers accounting for approximately 85 percent of total domestic hosiery production. Based on a special production survey recently conducted by NAHM, domestic production of embroidered cotton hosiery has been calculated for 1983 and for January-August 1983 and 1984.

Estimated production of embroidered cotton hosiery based on this survey is provided in the following tabulation:

	Estimated Production (in dozen of pairs)
1983	522,181
Jan.-Aug. 1983	354,804
Jan.-Aug. 1984	373,670

These data reveal a modest 5 percent increase in domestic production of embroidered cotton hoisery between January-August 1983 and 1984, substantially less than the 300 percent increase in imports between these two periods.

With respect to the four individual country suppliers covered by this market disruption statement, in the period January-August 1984, each of them satisfies the minimum ratio of imports to production of one percent, as follows:

Ratio of Imports to Production,
1983 and Jan.-Aug. 1984
(in percent)

	1983	Jan.-Aug. 1984
Taiwan	6.0	14.0
Korea	2.7	3.9
Japan	0.6	3.5
PRC	0.0	31.3

As shown above and in Table 2, the ratio for Taiwan more than doubled from 6.0 percent in 1983 to 14.0 percent in January-August 1984. The ratio for the PRC jumped from zero in 1983 to 31.3 percent in January-August 1984. The ratio of imports to production for Korea and Japan also increased between 1983 and 1984. Together, imports of embroidered cotton hosiery from these four countries in January-August 1984 were at a level equal to 52.7 percent of domestic production, causing considerable market disruption as a result.

E. Average Unit Values Of Imports And Domestic Sales Prices

The huge surge in imports of embroidered cotton hosiery in 1984 has caused substantial domestic market disruption, which has been intensified by the low and declining values of imports. These imports are impacting domestic production of this hosiery in all styles and price ranges. The average unit values of imports of embroidered cotton hosiery from all major suppliers show dramatic declines thus far in 1984.

Domestic producers report substantial margins of underselling by imports.

The following tabulation shows average F.O.B. unit values and average landed, duty-paid unit values for imports of embroidered cotton hosiery from the PRC, Taiwan, Korea, and Japan:

F.O.B. And Landed Duty-Paid Values of Imports
(in dollars per dozens pairs)

	January-August 1983		January-August 1984	
	F.O.B.	Landed, Duty-Paid	F.O.B.	Landed, Duty-Paid
PRC	--	--	3.30	4.34
Taiwan	9.85	12.56	8.60	10.99
Korea	9.21	11.77	5.67	7.28
Japan	15.83	20.23	21.83	27.83

Imports from the PRC, which have by far the lowest unit values, are concentrated in the market for relatively inexpensive infants' and children's footsocks and anklets, whereas imports from Taiwan and Korea are focused on the higher-priced fancy women's hosiery. Domestic producers report that Taiwan and Korea are particularly visible in the fancy hosiery market. Imports from Japan are concentrated in the very high value styles of embroidered cotton hosiery.

Declining import values have contributed substantially to the disruption of the domestic market. As shown above, imports from Taiwan show a 13 percent decrease in the average landed, duty-paid unit value between January-August 1983 and January-August 1984. Imports from Korea show a 38 percent decrease in the average landed, duty-paid unit value between January-August 1983 and January-August 1984. Because there were no imports from the PRC in 1983, no comparison between periods can be made; however, the emergence of the PRC in 1984 as the largest foreign supplier of embroidered cotton hosiery, at such low prices, provides clear evidence of domestic market disruption. Although imports from Japan show an increase in average unit value in 1984, domestic producers report that they continue to be undersold.

Available pricing data for domestic products and imports verify that imports are underselling domestic products by considerable margins. For example, a domestic producer reports that its girls', boys', and women's cotton machine embroidered anklets, mid-calf/crews, and knee-highs, which are branded and have the designer's logo embroidered on the hosiery, sell for $20-$24 per dozen pairs wholesale; the firm's socks for men of the same style sell for $24-$28 per dozen per dozen pairs wholesale. Using the $20 domestic price for this branded cotton embroidered hosiery, the domestic price is reduced by 25 percent to obtain an estimate of the price of similar, yet unbranded, hosiery of $15 per dozen pairs. Using imports from Taiwan as an example, the average landed, duty-paid unit value of $10.99 in 1984 is increased by 10 percent to estimate the importer's markup to the retailer. This import price of $12 per dozen pairs is 20 percent below the domestic price of $15 per dozen pairs, which is within the range of 15 percent to 25 percent underselling reported by domestic producers. This calculated margin is probably somewhat understated because it is based on the lowest reported domestic price.

F. Conclusion

It is clear that imports of embroidered cotton hosiery entering under TSUSA items 374.0500 and 374.1000 from the PRC, Taiwan, Korea, and Japan are causing market disruption in the United States. Imports from all of these individual countries satisfy the President's criteria for establishing a presumption of market disruption. Imports from these countries, which account for the vast majority of total imports, have risen dramatically in 1983 and 1984 and are at a level equal to a significant portion of domestic production of embroidered cotton hosiery. The magnitude of this import growth, which is expected to intensify in the rest of 1984, has resulted in substantial disruption of the domestic market. Domestic production has been affected and overall employment in the industry has begun to decline as imports have surged.

It is necessary, therefore, that the United States Government take action as soon as possible to establish restraints on imports from the PRC, Taiwan, Korea, and Japan, of TSUSA items 374.0500 and 374.1000.

III. MARKET DISRUPTION BY IMPORTS OF LACE OR NET MAN-MADE FIBER HOSIERY, WHETHER OR NOT ORNAMENTED AND ORNAMENTED MAN-MADE FIBER HOSIERY, WOMEN'S, GIRLS', AND INFANTS' FULL-LENGTH AND KNEE-LENGTH, EXCLUDING PANTYHOSE, FROM KOREA AND TAIWAN (TSUSA ITEM 374.3530)

A. Introduction

Imports of man-made fiber hosiery entering the United States under TSUSA item 374.3530 (lace or net man-made fiber hosiery, whether or not ornamented and ornamented man-made fiber hosiery, women's, girls', and infants' full-length and knee-length -- excluding pantyhose) are causing market disruption in the United States. The supplying countries causing disruption are Korea and Taiwan. This section and the corresponding tables provide information supporting the claim of market disruption.

The hosiery covered by TSUSA item 374.3530 occupies a distinct niche in the domestic market. In terms of what is actually produced, TSUSA item 374.3530 primarily refers to ornamented, knee-length hosiery, in particular knee-highs for infants and children (sizes 3-8½), knee-high's for girls, boys, and women (sizes 8-11), and women's sheer knee-highs and stockings. Ornamentation distinguishes this full-length and knee-length, man-made fiber hosiery from other hosiery products for women, girls, and infants, but many different methods, of ornamentation can be used, including fibers, filaments, yarns, or cordage, introduced as needlework (this includes embroidery); burnt-out lace; lace, netting, braid, fringe, edging, tucking, or trimming; applique and replique work, beads, bugles, spangles or ornaments; or any combination of the above methods of ornamentation. Thus, although this women's, girls, and infants' hosiery consists primarily of knee-highs and stockings, a great deal of variety exists between styles in terms of the actual method of ornamentation which is used.

B. The President's Criteria for Establishing a Presumption of Market Disruption Have Been Met

Imports of women's, girls', and infants ornamented full-length and knee-length man-made fiber hosiery clearly satisfy the President's criteria for establishing a presumption of market disruption, as announced in December 1983. First, the ratio of total imports to domestic production in the period January-August 1984 is 59.7 percent, well above the minimum 20 percent requirement. Second, the ratios of imports from Korea and Taiwan to domestic production in January-August 1984 were 22.5 percent and 24.3 percent, respectively, well above the minimum of one percent which is required to establish a presumption of market disruption with respect to an individual country supplier.

C. Imports are Rising

1. Total -- All Countries

Total imports of women's, girls', and infants' ornamented full-length and knee-length man-made fiber hosiery surged from 202,473 dozen pairs in 1981 to 299,224 dozen pairs in 1982, a 48 percent increase. (See Table 3 and Chart 2.) This was followed by a further increase of 12 percent to 336,533 dozen pairs in 1983. Based on trends though August 1984, total imports for all of 1984 are estimated to surge to 480,000 dozen pairs. (See Table 3 and Chart 2.) Imports from the countries which are the subject of this market disruption statement -- Korea and Taiwan -- accounted for 78 percent of total imports in January-August 1984.

2. Korea

With respect to Korea, imports of women's, girls', and infants' ornamented full-length and knee-length man-made fiber hosiery rose by 27 percent from 39,070 dozen pairs in 1981 to 49,797 dozen pairs in 1982. (See Table 3 and Chart 2.) An additional 7 percent increase occurred in 1983, as imports rose to the record level of 53,253 dozen pairs. However, imports from Korea have skyrocketed in 1984. Through August of 1984, imports from Korea were 89,498 dozen pairs. This represents a 336 percent increase over imports from Korea in the period January-August 1983 and a 68 percent increase over imports for all of 1983. Thus far in 1984, Korea accounted for 38 percent of total imports, compared to 19 percent in 1981. Based on current trends, imports from Korea for all of 1984 are estimated to rise to 232,100 dozen pairs. (See Table 3 and Chart 2.)

3. Taiwan

Imports of women's, girls', and infants' ornamented full-length and knee-length man-made fiber hosiery from Taiwan rose from 137,165 dozen pairs in 1981 to 207,351 dozen pairs in 1982, an increase of 51 percent. (See Table 3 and Chart 2.) This was followed by a further 16 percent increase to 241,233 dozen pairs in 1983. Through August of 1984, imports from Taiwan accounted for 41 percent of total imports. Imports from Taiwan for all of 1984 are estimated at 154,500 dozen pairs. (See Table 3 and Chart 2.)

D. Imports Represent a Significant Percentage of Domestic Production

The National Association of Hosiery Manufacturers (NAHM) represents producers accounting for approximately 85 percent of total domestic hosiery production. Based on a special production survey recently conducted by NAHM, domestic production of women's, girls', and infants' ornamented full-length and knee-length man-made fiber hosiery, has been calculated for 1983 and for January-August 1983 and 1984.

Estimated domestic production of women's, girls', and infants' ornamented full-length and knee-length man-made fiber hosiery based on this survey is provided in the following tabulation:

	Estimated Production (in dozens of pairs)
1983	581,154
Jan.-Aug. 1983	399,928
Jan.-Aug. 1984	397,675

These data reveal a one percent decrease in domestic production between January-August 1983 and 1984, compared to the total increase in imports of 22 percent between the same periods.

With respect to imports from Korea and Taiwan in the period January-August 1984, both countries satisfy the minimum ratio of imports to production of one percent, as follows:

Ratio of Imports to Production, 1983 and January-August 1984

	1983	Jan.-Aug. 1984
Korea	9.2	22.5
Taiwan	41.5	24.3

As shown above and in Table 4, the ratio of imports from Korea to domestic production was 9.2 percent in 1983 and 22.5 percent in January-August 1984, easily surpassing the minimum 1 percent criterion. With respect to Taiwan, the ratio of imports to domestic production was 41.5 percent in 1983 and 24.3 percent in January-August 1984. Together these two countries shipped women's, girls', and infants' ornamented full-length and knee-length man-made fiber hosiery to the United States at a level equal to 46.8 percent of domestic production in January-August 1984.

E. Average Unit Values of Imports and Domestic Prices

The dramatic surge in imports of women's, girls', and infants' ornamented full-length and knee-length man-made fiber hosiery has been accompanied by dramatic declines in the unit values of these imports, which has contributed substantially to disruption of the domestic market. Domestic producers report that imports are underselling their similar products by considerable margins. Imports entering the United States at low and declining prices pose substantial problems for domestic producers as customers turn to the lower-priced imports.

The tabulation below provides the average F.O.B. unit value and the average landed, duty-paid unit value of imports of women's, girls', and infants' ornamented full-length and knee-length man-made fiber hosiery from Korea and Taiwan in 1983 and 1984:

Average F.O.B. and Landed, Duty-Paid Unit Values
(in dollars per dozen pairs)

	Jan.-Aug. 1983		Jan.-Aug. 1984	
	F.O.B.	Landed Duty-Paid	F.O.B.	Landed Duty-Paid
Korea	6.20	8.00	3.55	4.58
Taiwan	5.36	6.92	5.14	6.63

As shown above, the average landed, duty-paid unit value of imports from Korea fell from $8.00 per dozen pairs in January-August 1983 to $4.58 per dozen pairs in January-August 1984, a 43 percent decrease. The average landed, duty-paid value of imports from Taiwan fell by 4 percent, from $6.92 per dozen pairs in January-August 1983 to $6.63 per dozen pairs in January-August 1984.

Domestic producers, as cited above, report that imports of this hosiery are underselling their domestic products in the marketplace by substantial margins; available data on domestic and import prices support this fact. For example, a domestic producer reports that its acrylic knee-highs for infants and children with heat-sealed appliques sell for $8 to $10 per dozen wholesale. Another producer reports that unbranded sheer man-made fiber women's knee-highs sell for $7.75 per dozen pairs wholesale and branded sheer man-made fiber women's knee-highs sell for $10.08 to $16.20 per dozen pairs wholesale.

To obtain comparable import prices, ten percent is added to the average landed, duty-paid unit values of imports from Korea and Taiwan to account for the importer's estimated markup to the retailer. The result is a price in 1984 for imports from Korea of $5.04 and from Taiwan of $7.29. Comparing the Korean import price of $5.04 to the range of domestic prices for the types of hosiery noted above, or $7.75 to $10.00 per dozen, indicates substantial margins of underselling ranging from 35 percent to 50 percent. If the Taiwanese import price of $7.29 is similarly compared to the range of domestic prices, margins of underselling by imports ranging from 6 percent to 28 percent are indicated.

F. Conclusion

It is clear that imports of ornamented full-length and knee-length man-made fiber hosiery for women, girls, and infants entering under TSUSA item 374.3530 from Korea and Taiwan are causing market disruption in the United States. Imports from both countries satisfy the President's criteria for establishing a presumption of market disruption. Imports from these countries, which account for the vast majority of total imports, have risen dramatically and are at a level equal to a significant portion of domestic production of this hosiery item. These inroads into the domestic market have negatively impacted domestic hosiery manufacturers, as evidenced by decreased production and employment in 1984.

It is necessary, therefore, that the United States Government take action as soon as possible to establish restraints on imports from Taiwan and Korea of TSUSA item 374.3530.

IV. MARKET DISRUPTION BY IMPORTS OF LACE OR NET MAN-MADE FIBER HOSIERY, WHETHER OR NOT ORNAMENTED AND ORNAMENTED MAN-MADE FIBER HOSIERY, OTHER THAN WOMEN'S, GIRLS', AND INFANTS' FULL-LENGTH AND KNEE-LENGTH, EXCLUDING PANTYHOSE, FROM TAIWAN AND KOREA (TSUSA ITEM 374.3550)

A. Introduction

Imports of man-made fiber hosiery entering the United States under TSUSA item 374.3550 (lace or net man-made fiber hosiery, whether or not ornamented, and ornamented man-made fiber hosiery, other than women's, girls, and infants' full-length and knee-length -- excluding pantyhose) are causing market disruption in the United States. The supplying countries causing disruption are Taiwan and Korea. This section and the corresponding tables provide information supporting the claim of market disruption.

Hosiery falling within this TSUSA item consists of footsocks, anklets, and mid-calf/crews for infants and children (sizes 3-8½); footsocks, anklets, mid-calf/crews, and knee-highs for men (sizes 10 and up); and sheer anklets for women. The market for this hosiery is quite distinct from women's knee-length and full-length hosiery. The bulk of domestic production consists of footsocks and anklets for infants and children. Although all of this man-made fiber hosiery shares the common characteristic of ornamentation, a wide variety of styles exists, depending upon the specific method of ornamentation which is used.

B. The President's Criteria for Establishing a Presumption of Market Disruption Have Been Met

Imports of ornamented man-made fiber hosiery, other than women's, girls', and infants' full-length and knee-length, clearly satisfy the President's new criteria for establishing a presumption of market disruption, as announced in December 1983. First, total imports rose from 669,671 dozen pairs in the year ending August 1983 to 1,488,397 dozen pairs in the year ending August 1984, an increase of 122 percent. This is well above the 30 percent minimum total import growth requirement. Second, the ratios of imports from Taiwan and Korea to domestic production in January-August 1984 were 33.7 percent and 41.8 percent, respectively, well above the minimum of one percent which is required to establish a presumption of market disruption with respect to an individual country supplier.

C. Imports are Rising

1. Total -- All Countries

Imports from all countries of ornamented man-made fiber hosiery, other than women's, girls', and infants' full-length and knee-length, rose from 292,067 dozen pairs in 1981 to 367,178 dozen pairs in 1982, an increase of 26 percent. (See Table 5 and Chart 3.) This was followed by a 120 percent surge to 808,267 dozen pairs in 1983. Based on current trends, total imports for all of 1984 are estimated to surge to 2,070,000 dozen pairs. (See Table 5 and Chart 3.) Taiwan and Korea, the countries which are the subject of this market disruption statement, accounted for 95 percent of total imports in January-August 1984, compared to 86 percent in 1981.

2. Taiwan

Imports of ornamented man-made fiber hosiery, other than women's, girls', and infants' full-length and knee-length, from Taiwan rose from 34,809 dozen pairs in 1981 to 48,788 dozen pairs in 1982, an increase of 40 percent. (See Table 5 and Chart 3.) This was followed by a remarkable 458 percent increase to 272,210 dozen pairs in 1983. Through August of 1984, imports from Taiwan have reached 492,950 dozen pairs, a level which is 283 percent greater than imports in January-August of 1983 and 81 percent greater than imports for all of 1983. Based on current trends, imports from Taiwan for all of 1984 are estimated to rise to 1,040,000 dozen pairs. (See Table 5 and Chart 3.) Imports from Taiwan, which accounted for 12 percent of total imports in 1981 accounted for 42 percent of imports in the first half of 1984.

3. Korea

With respect to Korea, imports of ornamented man-made fiber hosiery, other than women's, girls', and infants' full-length and knee-length, rose by 33 percent from 216,047 dozen pairs in 1981 to 287,437 dozen pairs in 1982. An additional 78 percent increase occurred in 1983, as imports rose to the record level of 510,542 dozen pairs. Imports from Korea have continued their dramatic rise in 1984. Through August of 1984, imports from Korea were 612,846 dozen pairs, accounting for 53 percent of total imports. This represents a 79 percent increase over imports from Korea in the period January-August 1983. Based on these trends, imports from Korea for all of 1984 are estimated to increase to 910,000 dozen pairs. (See Table 5 and Chart 3.)

D. Imports Represent a Significant Percentage of Domestic Production

The National Association of Hosiery Manufacturers (NAHM) represents domestic hosiery producers accounted for approximately 85 percent of total domestic hosiery production. Based on a special production survey recently conducted by NAHM, domestic production of ornamented man-made fiber hosiery, other than women's, girls', and infants' full-length and knee-length, has been calculated for 1983 and for January-August 1983 and 1984.

Estimated domestic production of ornamented man-made fiber hosiery, other than women's, girls', and infants' full-length and knee-length based on this survey is provided in the following tabulation:

	Estimated Production (in dozens of pairs)
1983	2,131,682
Jan.-Aug. 1983	1,489,219
Jan.-Aug. 1984	1,464,618

These data reveal a 2 percent decrease in domestic production between January-August 1983 and January-August 1984, compared to the 140 percent increase in total imports between these period.

With respect to imports from Taiwan and Korea in the period January-August 1984, both of them satisfy the minimum ratio of imports to production of one percent, as follows:

	Ratio of Imports to Production, 1983 and January-August 1984	
	1983	Jan.-Aug. 1984
Taiwan	12.8	33.7
Korea	24.0	41.8

As shown above and in Table 6, the ratio of imports from Taiwan to domestic production has more than doubled, rising from 12.8 percent in 1983 to 33.7 percent in January-August 1984, easily surpassing the minimum 1 percent criterion. With respect to Korea, the ratio of imports to domestic production surged from 24.0 percent in 1983 to 41.8 percent in January-August 1984. Together these two countries shipped ornamented man-made fiber hosiery, other than women's, girls', and infants' full-length and knee-length, at a level equal to 75.5 percent of domestic production in January-August 1984.

E. Average Unit Values of Imports and Domestic Prices

The dramatic surge of imports has resulted in substantial disruption of the domestic market, which has been aided by relatively low prices of imports. Domestic producers report that these surging imports are underselling their similar domestic merchandise by substantial margins. The result is further harm to the domestic industry as sales and customers are lost to imports.

The tabulation below provides average F.O.B. unit values and average landed, duty-paid unit values of imports from Taiwan and Korea in 1983 and 1984:

Average F.O.B. and Landed, Duty-Paid Unit Values

(in dollars per dozen pairs)

	Jan.-Aug. 1983		Jan.-Aug. 1984	
	F.O.B.	Landed Duty-Paid	F.O.B.	Landed Duty-Paid
Taiwan	4.02	5.19	4.72	6.09
Korea	2.75	3.56	2.63	3.40

As shown above, the average landed, duty-paid unit value of imports from Taiwan rose between January-August 1983 and January-August 1984, but still remained at the relatively low level of $6.09 per dozen pairs in 1984. The average landed, duty-paid unit value of imports from Korea showed a

4 percent decline from $3.56 per dozen pairs in January-August 1983 to $3.40 in January-August 1984.

Domestic producers report that they are experiencing large margins of underselling by imports in the domestic market. For example, one producer reports that its domestically produced embroidered man-made fiber anklets and sportsocks sell for $8.25 to $9.50 per dozen pairs wholesale, while similar imports sell from $6.75 to $7.75 per dozen pairs, indicating a margin of underselling by imports of approximately 18 percent. These import price data reported by domestic producers correspond closely with actual import values; for example, the 1984 average landed, duty-paid unit value of imports from Taiwan of $6.09 equals $6.70 when ajdusted upward by 10 percent to account for the importer's estimated markup to the retailer.

Another producer reports that its acrylic machine embroidered socks, which sell for $12 per dozen pairs wholesale, must compete with imports which are sold to the retailer at $10.25 to $10.40 per dozen pairs, indicating a margin of underselling by imports of 13 percent to 15 percent. This producer reports that most of its customers are now buying imports because of this price differential.

F. Conclusion

It is clear that imports of ornamented man-made fiber hosiery, other than women's, girls', and infants' full-length and knee-length, entering under TSUSA item 374.3550 from Taiwan and Korea, are causing market disruption in the United States. Imports from both countries satisfy the President's criteria for establishing a presumption of market disruption. Imports from these countries, which account for the vast majority of total imports, have risen dramatically and are at a level equal to a significant portion of domestic production of this hosiery item. These inroads into the domestic market have negatively impacted domestic producers, causing production and employment declines in 1984.

It is necessary, therefore, that the United States Government take action as soon as possible to establish restraints on imports from Taiwan and Korea of TSUSA item 374.3550.

Table 1

TSUSA ITEMS 374.0500 AND 374.1000:[1/] IMPORTS FROM TAIWAN, KOREA, THE JAPAN, AND THE PEOPLE'S REPUBLIC OF CHINA, 1981-1984 AND JANUARY-AUGUST 1983 AND 1984

(in dozens of pairs)

	1981	1982	1983	Jan.-Aug. 1983	Jan.-Aug. 1984	1984(E)
Taiwan	0	596	31,516	16,362	52,230	100,600
Korea	0	1,500	14,208	2,583	14,704	80,900
Japan	1,558	3,440	3,203	2,047	12,958	20,300
PRC	0	0	0	0	117,076	175,600
Other Countries	28,266	33,425	52,831	40,827	52,694	68,200
Total	29,824	38,961	101,758	61,819	249,662	445,600

(E) = Estimated by applying the percentage change between imports in January-August 1983 and January-August 1984 to full year 1983 for each specific country and for "other countries." The estimated total equals the sum of the country estimates.

1/ Cotton hosiery, embroidered.

Source: U.S. Department of Commerce data, TQ 2010, various editions.

Table 2

TSUSA ITEMS 374.0500 AND 374.1000: RATIO OF U.S. IMPORTS FROM TAIWAN, KOREA, THE JAPAN, AND THE PEOPLE'S REPUBLIC OF CHINA TO DOMESTIC PRODUCTION IN 1983 AND IN JANUARY-AUGUST 1984

(in percent)

	1983[1/]	January-August 1984 2/
Taiwan	6.0	14.0
Korea	2.7	3.9
Japan	0.6	3.5
PRC	0.0	31.3
Other Countries	10.1	14.1
Total	19.5	66.8

1/ Based on estimated 1983 production of 522,181 dozen pairs.
2/ Based on estimated January-August 1984 production of 373,670 dozen pairs.

Source: Calculated based on import data obtained from U.S. Department of Commerce, TO2010, various editions, and on production data obtained from a confidential survey conducted by the National Association of Hosiery Manufacturers.

Chart 1

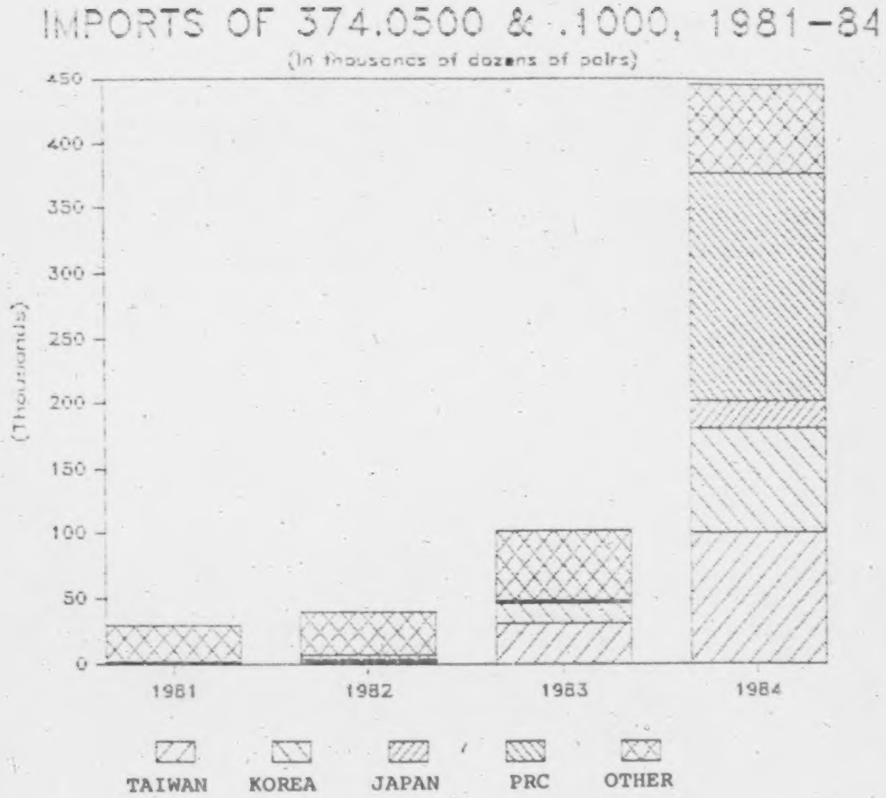
IMPORTS OF 374.0500 & .1000, 1981-84
(In thousands of dozens of pairs)
(Thousands)
450
400
350
300
250
200
150
100
50
0
1981
1982
1983
1984
TAIWAN
KOREA
JAPAN
PRC
OTHER

Table 3

TSUSA ITEM 374.3530:[1] U.S. GENERAL IMPORTS FROM TAIWAN AND KOREA, 1981-1984 AND JANUARY-AUGUST 1983 AND 1984

(in dozens of pairs)

	1981	1982	1983	Jan.-Aug. 1983	Jan.-Aug. 1984	1984(E)
Taiwan	137,165	207,351	241,233	151,138	96,775	154,500
Korea	39,070	49,797	53,253	20,535	89,498	232,100
Other Countries	26,238	42,076	42,047	23,739	51,181	90,600
Total	202,473	299,224	336,533	195,412	237,454	477,200

(E) = Estimated by applying the percentage change between imports in January-August 1983 and January-August 1984 to full year 1983 for each specific country and for "other countries." The estimated total equals the sum of the country estimates.

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[1] Lace or net man-made fiber hosiery, whether or not ornamented and ornamented man-made fiber hosiery, women's, girls', and infants' full-length and knee-length (excluding pantyhose).

Source: U.S. Department of Commerce data, TQ2310, various editions.

Table 4

TSUSA ITEM 374.3530: RATIO OF U.S. IMPORTS FROM TAIWAN AND KOREA TO DOMESTIC PRODUCTION IN 1983 AND IN JANUARY-AUGUST 1984

(in percent)

	1983 1/	January-Aug. 1984 2/
Taiwan	41.5	24.3
Korea	9.2	22.5
Other Countries	7.2	12.9
Total	57.9	59.7

1/ Based on estimated 1983 production of 581,154 dozen pairs.
2/ Based on estimated January-August 1984 production of 397,675 dozen pairs.

Source: Calculated based on import data obtained from U.S. Department of Commerce, TQ2310, various editions, and on production data obtained from a confidential survey conducted by the National Association of Hosiery Manufacturers.

Chart 2

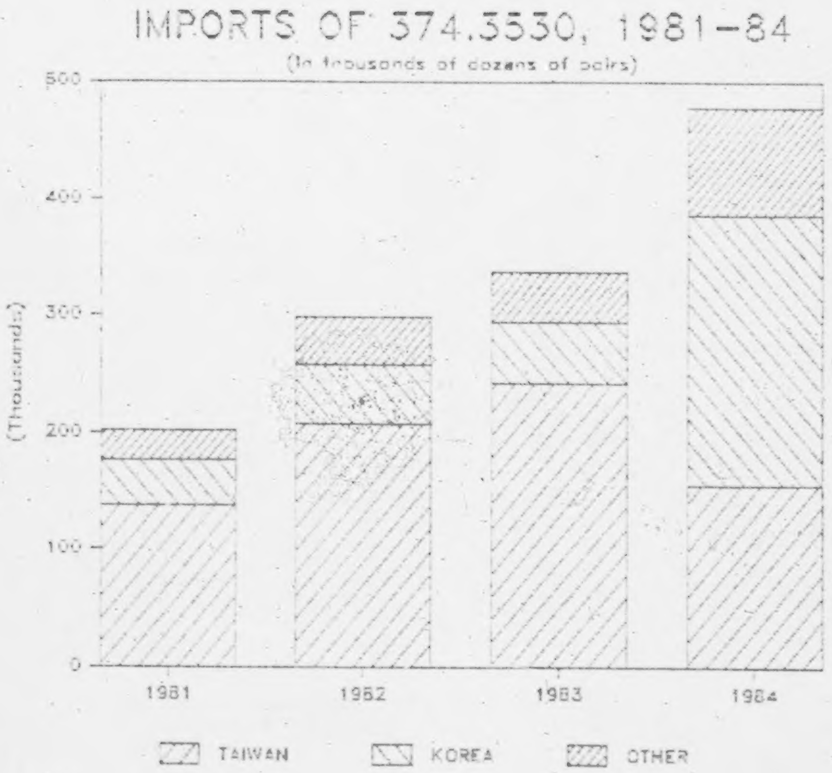

IMPORTS OF 374.3530, 1981–84
(In thousands of dozens of pairs)
(Thousands)
500
400
300
200
100
0
1981
1982
1983
1984
TAIWAN
KOREA
OTHER

Table 5

TSUSA ITEM 374.3550:[1] U.S. GENERAL IMPORTS FROM TAIWAN AND KOREA, 1981-1983 AND JANUARY-JUNE 1983 AND 1984

(in dozens of pairs)

	1981	1982	1983	Jan.-June 1983	Jan.-June 1984	1984 (E)
Taiwan	34,809	48,788	272,210	128,572	492,950	1,043,700
Korea	216,047	287,437	510,542	342,739	612,846	912,900
Other Countries	41,211	30,953	25,515	13,399	59,044	112,400
Total	292,067	367,178	808,267	484,710	1,164,840	2,069,000

(E) = Estimated by applying the percentage change between imports in January-August 1983 and January-August 1984 to full year 1983 for each specific country and for "other countries." The estimated total equals the sum of the country estimates.

[1] Lace or net man-made fiber hosiery, whether or not ornamented and ornamented man-made fiber hosiery, other than women's, girls', and infants' full-length and knee-length (excluding pantyhose).

Source: U.S. Department of Commerce data, TO2310, various editions.

Table 6

TSUSA ITEM 374.3550: RATIO OF U.S. IMPORTS FROM TAIWAN AND KOREA TO DOMESTIC PRODUCTION IN 1983 AND IN JANUARY-JUNE 1984

(in percent)

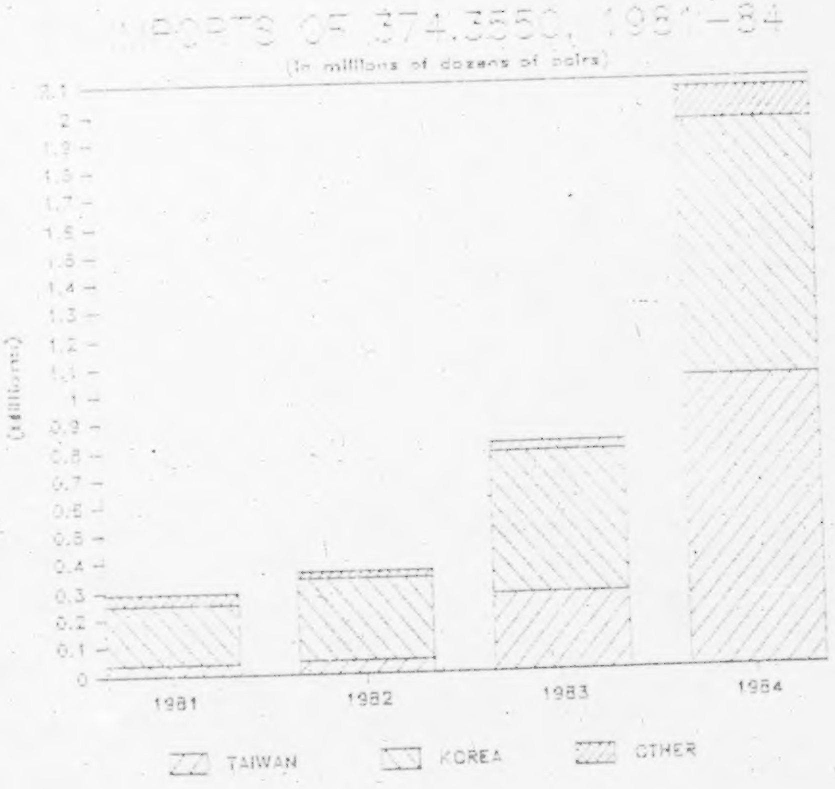
	1983 1/	January-June 1984 2/
Taiwan	12.8	33.7
Korea	24.0	41.8
Other Countries	1.2	4.0
Total	37.9	79.5

1/ Based on estimated 1983 production of 2,131,682 dozen pairs.

2/ Based on estimated January-August 1984 production of 1,464,618 dozen pairs.

Source: Calculated based on import data obtained from U.S. Department of Commerce, TQ2310, various editions, and on production data obtained from a confidential survey conducted by the National Association of Hosiery Manufacturers.

Chart 3


IMPORTS OF 374.3550, 1981–84
(In millions of dozens of pairs)
(Millions)
2.1
2
1.9
1.8
1.7
1.6
1.5
1.4
1.3
1.2
1.1
1
0.9
0.8
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0
1981
1982
1983
1984
TAIWAN
KOREA
OTHER

Appendix I

EXPLANATORY NOTES & DEFINITIONS

SOURCE OF DATA

The statistical information in this bulletin is based primarily on reports received regularly from knitting mills producing a majority of all the types of hosiery made in the United States. These reports reflect the trends which are the important guides to the hosiery industry and its market.

Added to the amounts actually reported are careful estimates representing the balance of the industry's activity. Together, the figures allow presentation of total industry information. In calculating amounts for non-reporting companies, consideration is given to previous reporting, special surveys, equipment in place, machine capacity, shifts worked, seasonal trends, and new mills and mills closed, either temporarily or permanently.

No data are collected nor estimated for non-knitting companies, such as commercial dyers and finishers, converters, etc.

Reports on stocks are made annually and comparisons are shown for the present and preceding year.

Consumption per capita tables are constructed to provide these vital figures for all size groupings of hosiery. Foreign trade figures are condensed, based on data available at the earliest possible date. Further information in many different areas is published throughout the year by the National Association of Hosiery Manufacturers in various publications.

CHANGES IN STATISTICAL REPORTING

A number of significant changes were made in 1980 in the classifications of various types of hosiery. One of the biggest changes was the distinct separation between Women's Hosiery and Socks and Anklets, based on a break point of 300 needles or more (see definitions below). Also, cushion and non-cushion breakouts were added to many of the Socks and Anklets categories. Style categories are still based on "length-up-the-leg," but length measurements were added to the definitions in order to clarify the classification of tube socks. Wherever possible, historical data has been revised to provide compatible data.

DEFINITIONS

Production:	All hosiery knitted plus any purchases (greige and finished).
Shipments:	All shipments (greige and finished) whether knitted or purchased.

EXPLANATORY NOTES & DEFINITIONS (continued)

Size 3-8½ Infants' and Children's:	Midpoint of size range 8½ or less; includes styles whose size range from 3-6½, 5-8½, 7-10; includes waist-highs (tights) with a midpoint of Size 6 or less knit on less than 300 needles.
Sizes 8-11 Girls', Boys' and Women's:	Midpoint of size range more than 8½, but not more than 11; includes stockings knit on less than 300 needles, and waist-highs (tights) for all Sizes 7 and up knit on less than 300 needles.
Size 10 & Up - Men's:	Midpoint of size range more than 11; includes styles whose sizes range from 10-13 knit on less than 300 needles.
Women's Hosiery:	All women's and girls' footsocks, anklets, mid-calf/crew, knee-highs, pantyhose, and stockings knit on 300 needles or more; and tights Size 7 & Up knit on 300 needles or more (which are included under PANTYHOSE: Other).
Footsocks:	Hosiery, the top of which does not extend above the ankle-bone. This includes hosiery which is designed to be worn "cuffed." This includes no tube socks.
Anklets:	Hosiery, the top of which is designed to cover the ankle-bone and extends less than one-third of the way up the largest part of the calf. This includes socks which are designed to be worn "cuffed."
Mid-Calf/Crew:	Hosiery, the top of which extends beyond ankle length but not beyond the largest part of the calf. This includes all types of hosiery such as half-hose, dress socks, athletic socks, women's hosiery of this length, and both reciprocated and tubed hosiery. Size 8-11 tube socks that measure less than 18 inches in length are reported in this category (excluding women's hosiery items knit on 300 needles or more). Size 10 & Up tube socks measuring 21 inches or less in length are reported in this category (excluding women's hosiery items knit on 300 needles or more).
Knee-Highs:	Hosiery, the top of which extends beyond the calf but not over the knee. This includes all types of hosiery of this length, such as over-the-calf, knee-length, dress socks, athletic socks, and women's knee-highs. This also includes both tubed and reciprocated hosiery. Size 8-11 tube socks measuring 18 inches or over in length are reported in this category (excluding women's knee-highs which are knit on 300 needle or more machinery). Size 10 & Up tube socks measuring 22 inches or more in length are reported in this category (excluding women's knee-highs knit on 300 needle or more machinery).

EXPLANATORY NOTES & DEFINITIONS (continued)

Pantyhose/ Waist-Highs:	Hosiery extending above the crotch but not above the waist, such as pantyhose and tights. All tights knit on machinery with 300 needles or more are reported under WOMEN'S HOSIERY, PANTYHOSE: Other. All tights knit on machinery with less than 300 needles are reported under the appropriate socks and anklets size categories (Size 3-8½; or Size 8-11). Tights knit on machinery with less than 300 needles with a midpoint of Size 6 or less are reported under Size 3-8½. Tights knit on machinery with less than 300 needles with a Size 7 or greater are reported Under Sizes 8-11.
Stockings:	Hosiery extending above the knee but not above the crotch. Girls' and women's leg-warmers are reported under stockings, in Size 8-11, if knit on machinery with less than 300 needles.
Cushion:	Has some terry or cushion construction.
Non-Cushion:	Plain construction.
Sheer:	This definition is used in differentiating between women's sheer and opaque pantyhose only. Sheer is hosiery knit on 300 needles or more, with yarn under 30 denier.
Opaque:	This definition is used only in differentiating between women's sheer and opaque pantyhose. Opaque is hosiery knit on 300 needles or more, with yarn of 30 denier or over.
Elastomer:	Any pantyhose having a spandex-type yarn throughout the leg or panty, or both.
Control Top:	Elastomer Pantyhose with a spandex-type yarn that provides a support or control characteristic to the panty portion of the pantyhose ONLY.
Leg Support 40 Denier and Under (LS - 40 D↑):	Elastomer Pantyhose with a spandex-type yarn of 40 denier or under in the leg portion of the pantyhose that provides a support type characteristic to the leg portion of the pantyhose. The pantyhose also has some spandex-type yarn providing a support or control characteristic to the panty portion of the pantyhose.
Leg Support Over 40 Denier (LS - ↓40D):	Elastomer Pantyhose with a spandex-type yarn of over 40 denier in the leg portion of the pantyhose that provides a support type characteristic to the leg portion of the pantyhose. The pantyhose also has some spandex-type yarn providing a support or control characteristic to the panty portion of the pantyhose.
Other:	This definition provides a miscellaneous category for WOMEN'S PANTYHOSE and STOCKINGS only. These categories would include full-fashioned, fancies, sewn-on legs, waist-connected legs, replaceable legs, two-component pantyhose, and women's tights knit on machinery with 300 needles or more.

ADDENDUM TO HOSIERY MARKET DISRUPTION STATEMENTS OF NOVEMBER 8, 1984

I. INTRODUCTION

On November 8, 1984 the National Association of Hosiery Manufacturers (NAHM) submitted to CITA a market disruption statement detailing the import problems currently being experienced with respect to several specific hosiery product areas and requesting calls on these items. At this time, we are submitting this addendum to our previous submission, to emphasize additional facts which support these requests for calls.

Additional information had been requested by government personnel working on our original submission. Specifically, it was requested that we attempt to provide at least 24 months of import penetration figures. With current data available and keeping within the timetable provided to us, we have been able to expand IP information through 23 months. This information has been addressed in the following narrative.

Additionally, it was requested that we provide more detailed information on the ranges of selling prices for domestically-competing products with those being imported. In light of the import classifications and descriptions, this is understandably difficult, but a survey of domestic hosiery manufacturers has provided further information on comparable domestic and imported products, including the wide margin of underselling by imports. This information has been provided for each of the three major product areas of concern. The National Association of Hosiery Manufacturers (NAHM) is available to answer additional questions or provide more information as needed.

II. EMBROIDERED COTTON HOSIERY FROM THE PEOPLE'S REPUBLIC OF CHINA, TAIWAN, KOREA, AND JAPAN (TSUSA ITEMS 374.0500 AND 374.1000)

A. Total Imports Are Rising

As discussed in our original statement, total imports of embroidered cotton hosiery rose steadily between 1981 and 1983. Furthermore, total imports rose from 61,819 dozen pairs in January-August 1983 to 249,662 dozen pairs in January-August 1984, an increase of over 300 percent. This trend has continued in more recent months, with total imports in January-November 1984 of 290,895 dozen pairs, compared to only 89,092 dozen pairs in January-November 1983.

B. Imports in Recent Months from the Countries in Question Have Continued Their Injurious Trends

Calls have been requested on imports of embroidered cotton hosiery entering the United States from Taiwan, Korea, Japan, and the PRC. Table 1 and Charts 1 through 4 provide data on imports from these countries in July-November 1983 and July-November 1984.

With respect to Taiwan, imports in the period July-November 1984, the second half of the year to date, total 24,146 dozen pairs, a 137 percent increase over imports in July-November 1983 of 10,182 dozen pairs. (See Table 1 and Chart 1.) With respect to Japan, imports of embroidered cotton hosiery rose from 1,442 dozen pairs in July-November 1983 to 6,194 dozen pairs in July-November 1984, an increase of 329 percent. (See Table 1 and Chart 2.) Imports from Korea rose by 2 percent, from 6.383 dozen pairs in July-November 1983 to 6,520 dozen pairs in July-November 1984. (See Table 1 and Chart 3.) Imports of embroidered cotton hosiery from the PRC were 89,176 dozen pairs in July-November 1984, compared to zero in the same period of 1983. (See Table 1 and Chart 4.) These figures clearly show the import increases in recent months with respect to all four countries, emphasizing the urgent need for calls.

C. Rising Imports Are a Factor Causing Domestic Market Disruption

In the case of embroidered cotton hosiery, causation of market disruption by imports is self-evident from the high import to production ratios in January-November 1984, particularly for Taiwan (12.7 percent) and the PRC (25.6 percent); the ratios show substantial increases over the 1983 ratios for all four countries. (See Charts 5 through 8.) Furthermore, the unit values of imports from Taiwan and Korea have declined dramatically in 1984, and imports from the PRC, the largest supplier in 1984, also have the lowest unit value of any supplier. As discussed in our original submission, prices reported by domestic producers indicate margins of underselling ranging from 15 to 25 percent. This combination of falling import prices and underselling by imports has led to lost sales by domestic producers and allowed imports to capture virtually all of the growth in this market. These facts provide ample support for a causal link between rising imports and domestic market disruption.

D. Comparable Domestic Products

Products produced by the domestic industry that are competing with these imports can be found in many different size ranges and categories. They primarily involve embroidered goods or hosiery with lace.

The following tabulation shows average F.O.B. unit values and average landed, duty-paid unit values for imports of embroidered cotton hosiery from the PRC, Taiwan, Korea, and Japan:

F.O.B. and Landed Duty-Paid Values of Imports
(in dollars per dozen pairs)

	January-August 1983		January-August 1984	
	F.O.B.	Landed, Duty-Paid	F.O.B.	Landed, Duty-Paid
PRC	--	--	3.30	4.34
Taiwan	9.85	12.56	8.60	10.99
Korea	9.21	11.77	5.67	7.28
Japan	15.83	20.23	21.83	27.83

Comparable domestic products have significantly different price structures, because of wage and material costs differentials. Embroidered infants' and children's goods, at the low end, wholesale for $6 to $10 per dozen. Middle-range prices fall in the $13 to $14 per dozen; and the upper end approaches $17 to $18 per dozen for embroidered children's hosiery that is directly comparable to the goods being brought in from the PRC and South Korea.

Embroidered socks for girls', boys', and women are generally higher because of the larger size of the product. The low-end quoted prices are between $10 and $16 per dozen. Mid-range prices run from $20 to $24 per dozen, and most in the industry believe that $30 per dozen would represent the high side of the range. This is certainly the range in which goods coming in from Japan are competing.

For men's hosiery, domestic embroidered products market for $12 to $16 per dozen. The mid-range runs from $24 to $28 per dozen, with the high range running from $36 to $38 per dozen.

III. ORNAMENTED WOMEN'S FULL-LENGTH AND KNEE-LENGTH MAN-MADE FIBER HOSIERY FROM TAIWAN AND KOREA (TSUSA ITEM 374.3530) 1/

A. Domestic Production Is Declining

As discussed in our market disruption statement, estimated domestic production of ornamented women's full-length and knee-length man-made fiber hosiery fell from 399,928 dozen pairs in January-August 1983 to 397,675 dozen pairs in January-August 1984, a decrease of 0.6 percent. This decline has accelerated since August. Updated estimates through November 1984 show a production decrease of 3.5 percent compared to the same period in 1983. Thus, in the interval since our request for calls was originally filed, domestic production trends have worsened further.

B. Total Imports Are Rising

Based on the data contained in our market disruption statement, total

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1/ Lace or net man-made fiber hosiery, whether or not ornamented and ornamented man-made fiber hosiery, women's, girls', and infants' full-length and knee-length, excluding pantyhose.

imports of this hosiery increased steadily between 1981 and 1983 and rose by 22 percent from 195,412 dozen pairs in January-August 1983 to 237,454 dozen pairs in January-August 1984. This increasing import trend has intensified further since August. Imports of ornamented women's full-length and knee-length man-made fiber hosiery in January-November 1984 were 427,396 dozen pairs, which is 49 percent greater than imports in January-November 1983 of 286,676. Calls on imports from the major foreign suppliers are necessary as soon as possible in order to halt this import surge.

C. Imports in Recent Months From the Countries in Question Have Continued Their Injurious Trends

Table 2 and Charts 9 and 11 provide data on imports of ornamented women's full-length and knee-length man-made fiber hosiery entering from Taiwan and Korea, the two countries for which calls have been requested, for the periods July-November 1983 and July-November 1984.

Imports from Taiwan totalled 189,345 dozen pairs between July and November 1984 and peaked at 86,597 dozen pairs in November, their highest monthly total ever. Imports in July-November 1984 were 16 percent higher than imports in July-November 1983 of 163,330 dozen pairs. (See Tables 2 and Chart 9.) Imports from Taiwan have been particularly strong in recent months, as shown in Chart 10.

Imports from Korea rose from 17,144 dozen pairs in July-November 1983 to 33,565 dozen pairs in July-November 1984. This represents an increase of 96 percent. (See Table 2 and Chart 11.)

D. Rising Imports Are a Factor Causing Domestic Production Declines and Market Disruption

With import trends as dramatic as in this case, it is clear that imports are directly responsible for domestic production declines. With respect to this ornamented women's full-length and knee-length man-made fiber hosiery, causation of market disruption by imports is demonstrated by the high import to production ratios for Taiwan and Korea in January-November 1984 of 46.4 percent and 21.0 percent, respectively, which represent substantial increases over the 1983 ratios. (See Charts 12 and 13.) Imports from Taiwan and Korea in January-November 1984 are up 12 percent and 242 percent, respectively, over the same period in 1983.

Furthermore, the average unit values of imports from both countries show substantial decreases between 1983 and 1984, providing further evidence of lost sales and domestic market disruption by imports. Prices reported by domestic producers indicate substantial underselling by imports in the marketplace, ranging from 35 percent to 50 percent for Korea and from 6 percent to 28 percent for Taiwan. These low and falling import prices have taken away sales from domestic producers.

These facts provide clear evidence of a causal link between rising imports and domestic production declines and market disruption, indicating the urgent need for calls.

E. Comparable Domestic Products

Comparable domestic products to those being imported in this category are embroidered goods for infants', children's, girls', boys', and women's socks.

The tabulation below provides the average F.O.B. unit value and the average landed, duty-paid unit value of imports of women's, girls', and infants' ornamented full-length and knee-length man-made fiber hosiery from Korea and Taiwan in 1983 and 1984:

Average F.O.B. and Landed, Duty-Paid Unit Values
(in dollars per dozen pairs)

	January-August 1983		January-August 1984	
	F.O.B.	Landed, Duty-Paid	F.O.B.	Landed, Duty-Paid
Korea	6.20	8.00	3.55	4.58
Taiwan	5.36	6.92	5.14	6.63

Domestically-produced infants' and children's embroidered socks are marketed for $6 to $9 per dozen. The mid-range would be from $8 to $10 per dozen, with the high being approximately $14 per dozen. These products would be directly comparable and competitive to those being brought in from South Korea in this particular category. Additionally, some of the hosiery from Taiwan in this category would also be infants' and children's goods.

For embroidered socks in this category for girls', boys', and women, domestic embroidered prices would be from $8 to $12 per dozen at the low end, with $16 to $17 accounting for the mid-price range. The high-priced goods would be approximately $24 to $27 per dozen.

IV. ORNAMENTED MAN-MADE FIBER HOSIERY, OTHER THAN FULL-LENGTH AND KNEE-LENGTH, FROM TAIWAN AND KOREA (TSUSA ITEM 374.3550) [1]

A. Domestic Production Is Declining

Based on information contained in our market disruption statement, estimated domestic production of ornamented man-made fiber hosiery, other than full-length and knee-length, fell from 1,489,219 dozen pairs in January-August 1984, a decrease of 1.7 percent. As was the case with ornamented women's full-length and knee-length man-made fiber hosiery (TSUSA item 374.3530), updated production data show that the decline has accelerated since August; for the period January-November 1984, estimated production is down 3.1 percent compared to production in January-November 1983.

B. Total Imports Are Rising

Total imports surged from 484,710 dozen pairs in January-August 1983 to 1,164,840 dozen pairs in January-August 1984, an increase of 140 percent, as described in our original statement. This trend has intensified since August, with total imports for January-November 1984 greater than the same period of 1983 by 168 percent. Calls on the two major suppliers, Taiwan and Korea, are necessary immediately to control this import surge.

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[1] Lace or net man-made fiber hosiery, whether or not ornamented and ornamented man-made fiber hosiery, other than women's, girls', and infants' full-length and knee-length, excluding pantyhose.

C. Imports in Recent Months From the Countries in Question Have Continued Their Injurious Trends

Table 3 and Charts 14 and 16 provide data on imports of ornamented man-made fiber hosiery, other than full-length and knee-length, from Taiwan and Korea, the two countries for which we are requesting calls, for the periods July-November 1983 and July-November 1984. With respect to Taiwan, imports in July-November 1984 increased by 367 percent over imports in the comparable period of 1983. (See Table 3 and Chart 14.) Imports from Taiwan have been particularly strong in the most recent months of 1984, as shown in Chart 15. With respect to Korea, imports in July-November 1984 were 342,303 dozen pairs, 82 percent higher than imports for July-November 1983 of 188,380 dozen pairs. (See Table 3 and Chart 16.)

D. Rising Imports Are a Factor Causing Domestic Production Declines and Market Disruption

The ratios of imports to production in January-November 1984 were 56.3 percent for Taiwan and 40.6 percent for Korea, and represented substantial increases over the 1983 ratios for Taiwan and Korea of 12.8 percent and 24.0 percent, respectively. (See Charts 17 and 18.) Imports from Taiwan and Korea for January-November 1984 are up 342 percent and 67 percent, respectively, over the same period in 1983. Average unit values of imports from Korea show a decrease in 1984 compared to 1983, and domestic producers report substantial margins of underselling by imports, ranging from 13 percent to 18 percent. Such import pricing practices have resulted in substantial sales losses for domestic producers.

These import and pricing trends provide clear evidence of production declines being caused by imports, and calls are urgently needed to prevent further harm to domestic producers.

E. Comparable Domestic Products

The tabulation below provides average F.O.B. unit values and average landed, duty-paid unit values of imports from Taiwan and Korea in 1983 and 1984:

Average F.O.B. and Landed, Duty-Paid Unit Values
(in dollars per dozen pairs)

	January-August 1983		January-August 1984	
	F.O.B.	Landed Duty-Paid	F.O.B.	Landed Duty-Paid
Taiwan	4.02	5.19	4.72	6.09
Korea	2.75	3.56	2.63	3.40

There are comparable domestic products in this category for the whole family (infants', girls' and boys', women, and men). Again, because of the wide range in sizes, the wholesale prices vary dramatically. For domestically produced infants' and children's goods, lace anklets would wholesale for $6 to $8 per dozen. Embroidered anklets would market in ranges such as $6 to $10 per dozen; $16 to $18 per dozen; $20 to $24 per dozen; and the most expensive goods probably around $30 per dozen. Decorated infants' footsocks market for approximately $10 per dozen. All of these goods would be directly competitive with those imports coming in from South Korea at $3.40 per dozen "landed-duty paid."

Domestically-produced ornamented socks for girls', boys', and women also come in a number of ranges. Embroidered anklets would market for $16 to $18 per dozen for the low end; and from $20 to $24 per dozen in the middle range. The high-priced goods would approach $30 per dozen. Small footsocks with pom-pons on them would run any where from $6.50 per dozen to $7 per dozen. It is interesting to note that just plain footsocks and anklets in these categories would market for $8 to $13.50 per dozen. Some of the ornamented imports are coming in at half of these prices.

And a similar situation exists in men's hosiery in this category. Embroidered anklets would market in ranges of $20 to $22 per dozen; $24 to $27 per dozen; and a high range of $36 to $38 per dozen. These prices would carry through to mid-calf/crew socks that were embroidered.

Again, the National Association of Hosiery Manufacturers (NAHM) is pleased to have the opportunity to submit this additional information to CITA. We are certainly available to provide any additional information or answer any questions that might arise.

Table 1

TSUSA ITEM 374.0500 AND 374.1000:[1] U.S. GENERAL IMPORTS FROM TAIWAN, KOREA, JAPAN, AND THE PEOPLE'S REPUBLIC OF CHINA, JULY-NOVEMBER 1983 AND 1984

(in dozens of pairs)

	July-Nov. 1983	July-Nov. 1984
Taiwan	10,182	24,146
Korea	6,383	6,520
Japan	1,443	6,194
PRC	0	89,176

[1] Cotton hosiery, embroidered.

Source: U.S. Department of Commerce data.

Table 2

TSUSA ITEM 374.3530:[1] U.S. GENERAL IMPORTS FROM TAIWAN AND KOREA, JULY-NOVEMBER 1983 AND 1984

(in dozens of pairs)

	July-Nov. 1983	July-Nov. 1984
Taiwan	163,330	189,345
Korea	17,144	33,565

[1] Lace or net man-made fiber hosiery, whether or not ornamented, and ornamented man-made fiber hosiery, women's, girls', and infants' full-length and knee-length (excluding pantyhose).

Source: U.S. Department of Commerce data.

Table 3

TSUSA ITEM 374.3550:[1/] U.S. GENERAL IMPORTS FROM TAIWAN AND KOREA, JULY-NOVEMBER 1983 AND 1984

(in dozens of pairs)

	July-Nov. 1983	July-Nov. 1984
Taiwan	162,434	758,629
Korea	188,380	342,303

[1/] Lace or net man-made fiber hosiery, whether or not ornamented, and ornamented man-made fiber hosiery, other than women's, girls', and infants' full-length and knee-length (excluding pantyhose).

Source: U.S. Department of Commerce data.

Chart 1

IMPORTS OF 374.0500 & .1000,TAIWAN

(IN THOUSANDS OF DOZENS OF PAIRS)

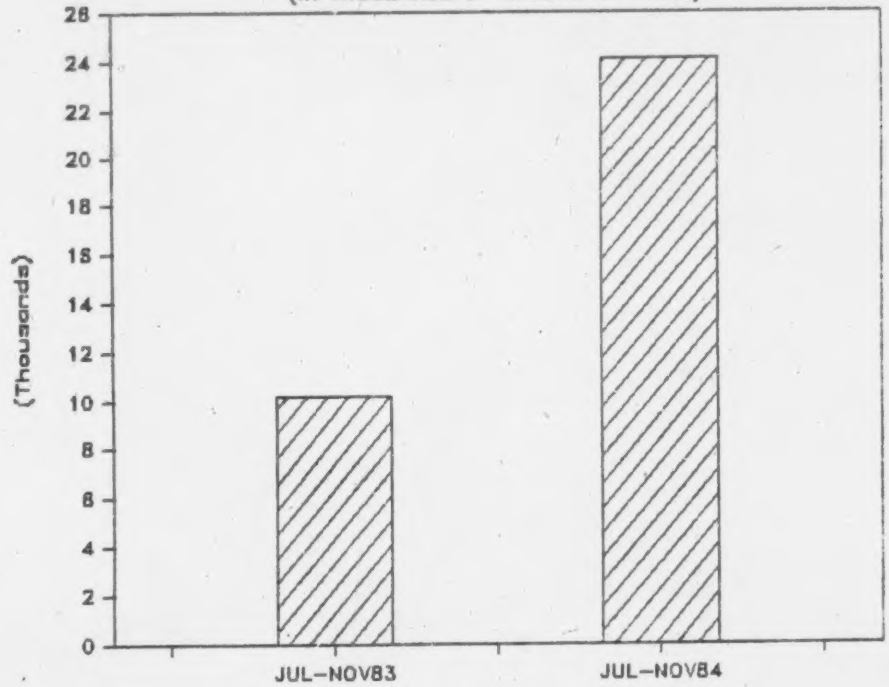


Chart 2

IMPORTS OF 374.0500 & .1000,JAPAN

(IN THOUSANDS OF DOZENS OF PAIRS)

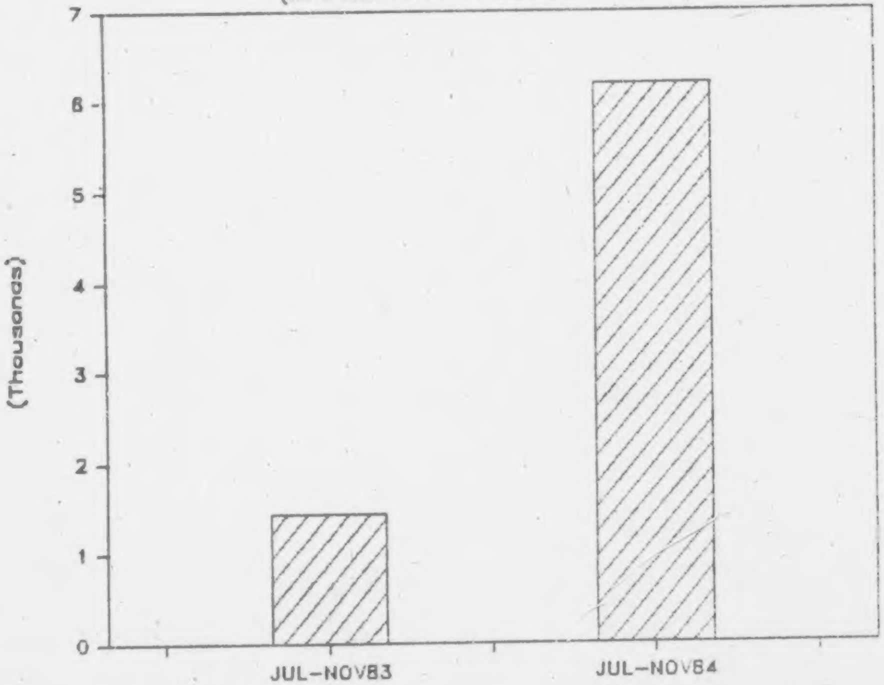


Chart 3

IMPORTS OF 374.0500 & .1000,KOREA

(IN THOUSANDS OF DOZENS OF PAIRS)

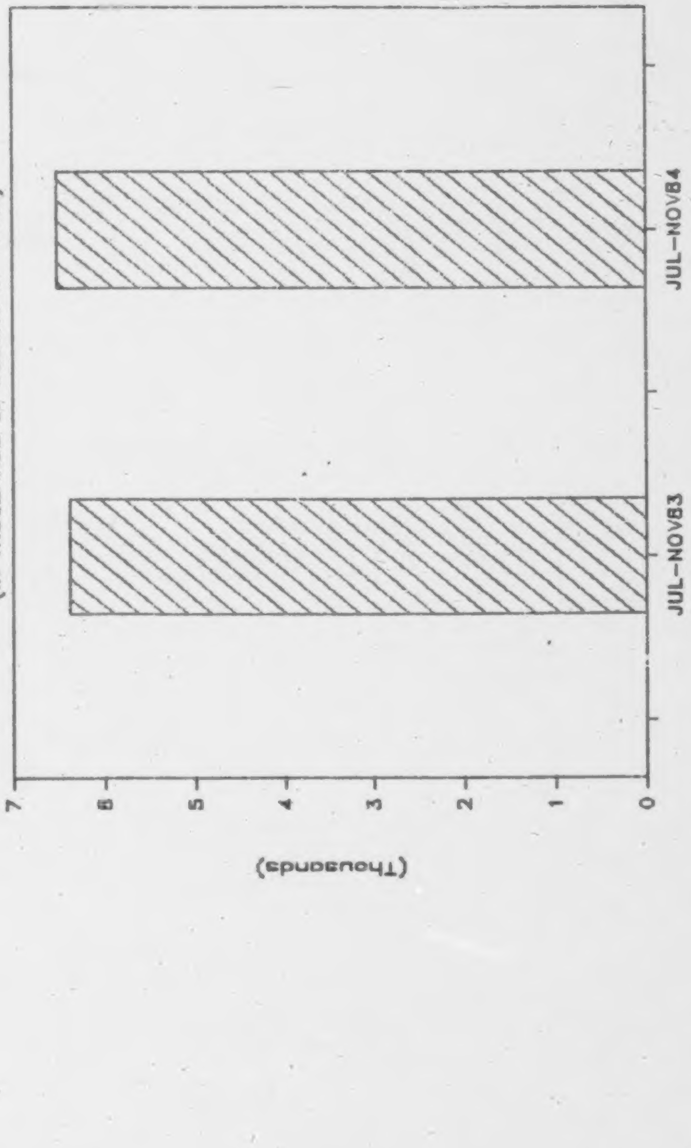


Chart 4

IMPORTS OF 374.0500 & .1000,PRC
(IN THOUSANDS OF DOZENS OF PAIRS)

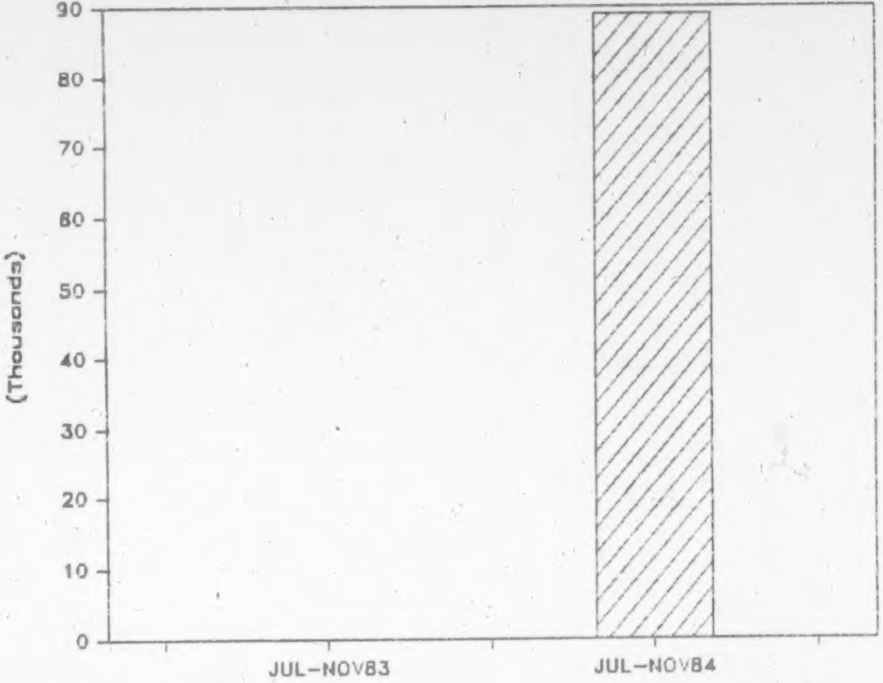


Chart 5

374.0500 &.1000, I/P RATIO,TAIWAN
(IN PERCENT)

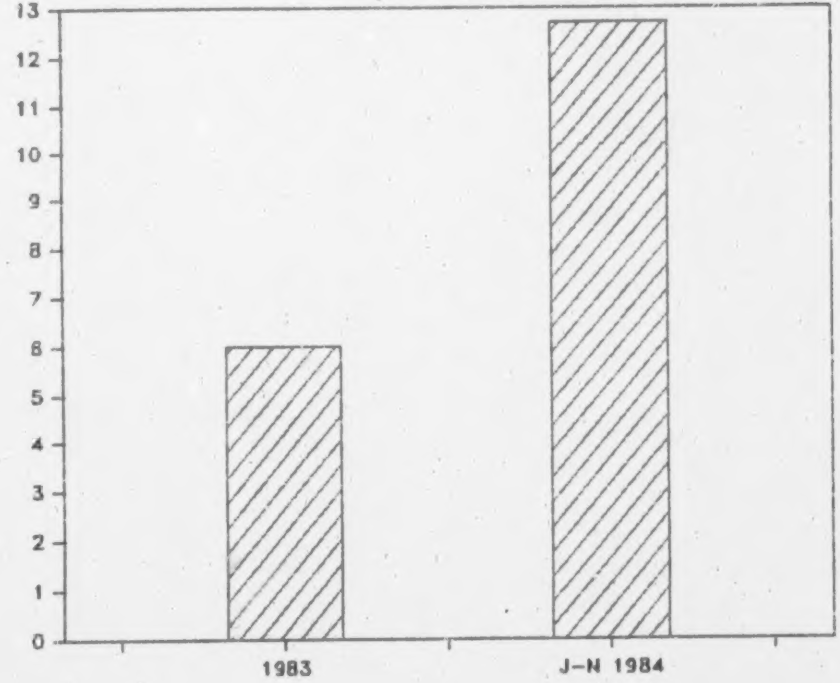


Chart 6

374.0500 &.1000, I/P RATIO,KOREA

(IN PERCENT)

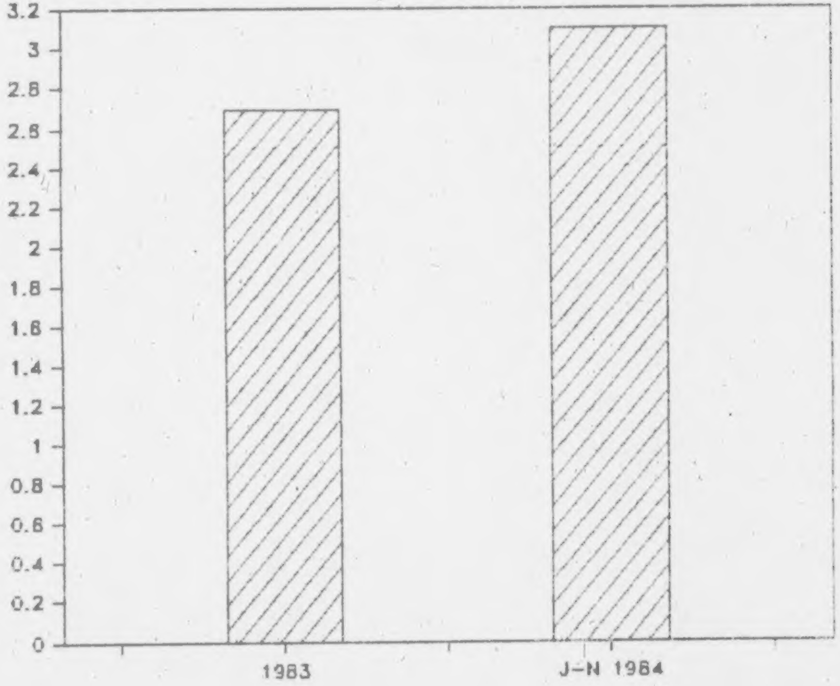


Chart 7

374.0500 &.1000, I/P RATIO, JAPAN

(IN PERCENT)

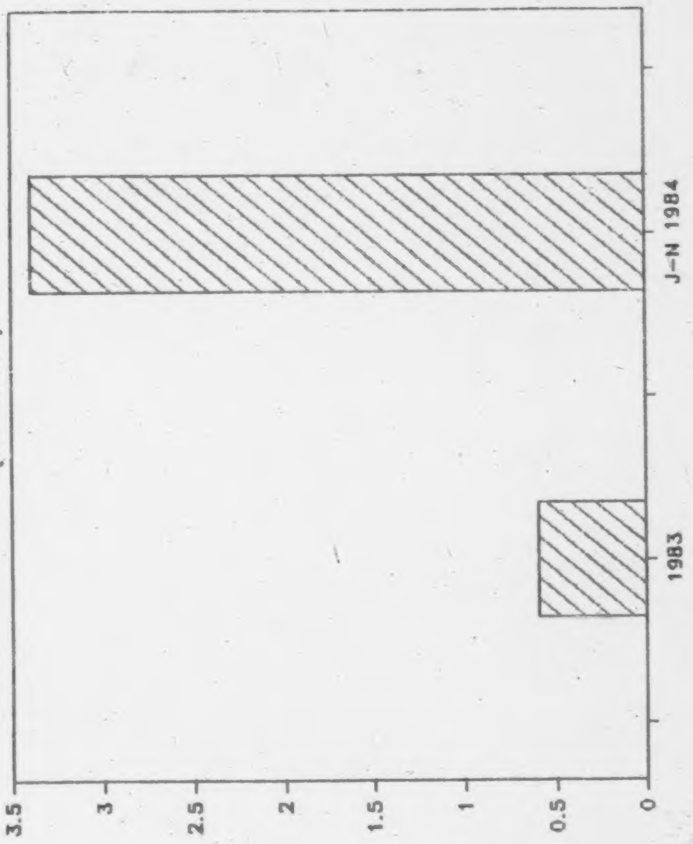


Chart 8

374.0500 &.1000, I/P RATIO,PRC

(IN PERCENT)

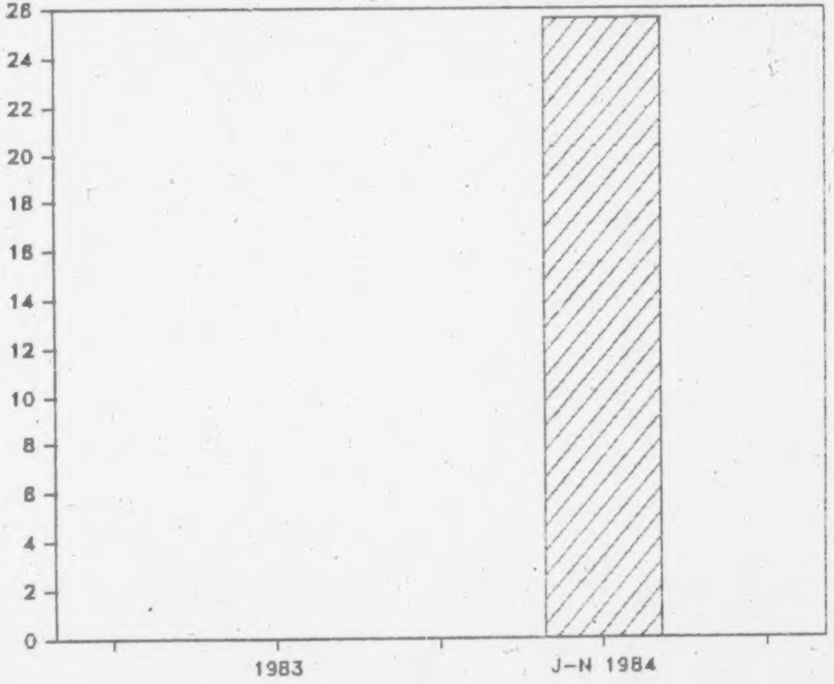


Chart 9

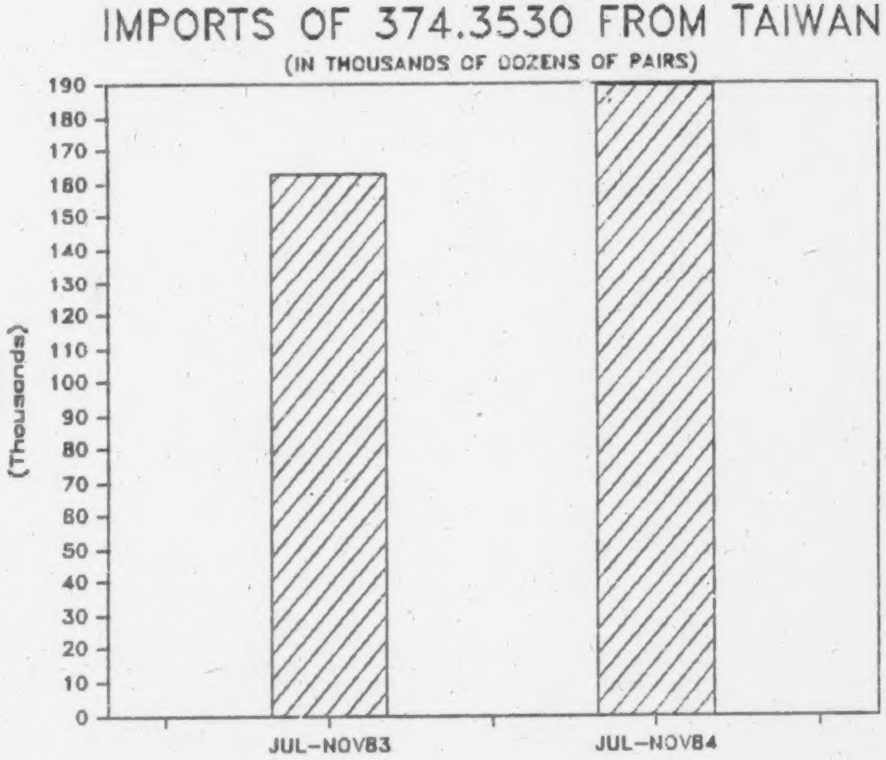

IMPORTS OF 374.3530 FROM TAIWAN
(IN THOUSANDS OF DOZENS OF PAIRS)
(Thousands)
190
180
170
160
150
140
130
120
110
100
90
80
70
60
50
40
30
20
10
0
JUL-NOV83
JUL-NOV84

Chart 10

IMPORTS OF 374.3530 FROM TAIWAN

(IN THOUSANDS OF DOZENS OF PAIRS)

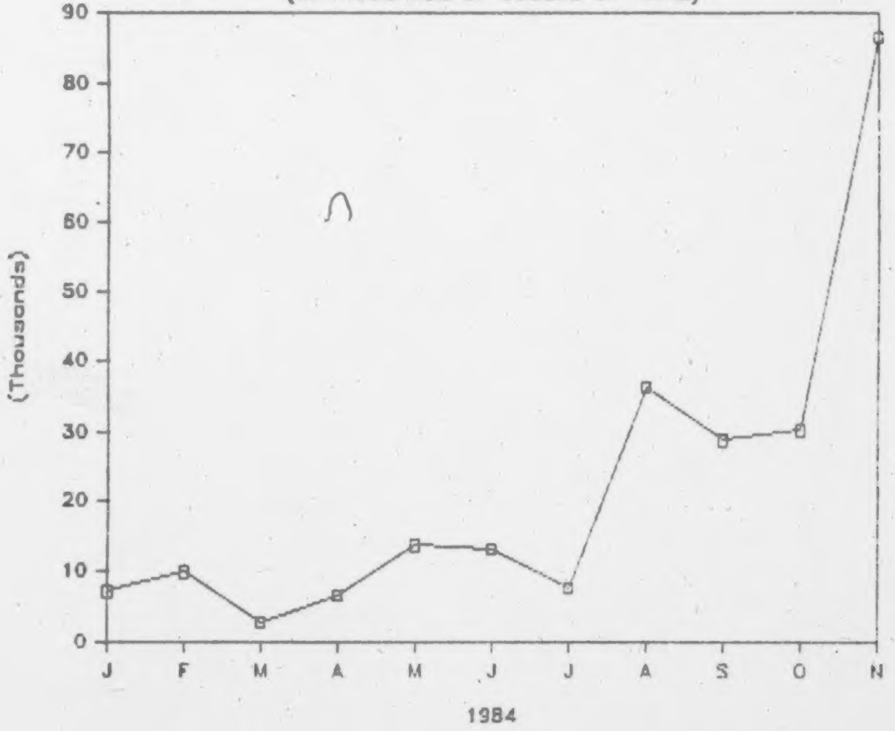


Chart 11

IMPORTS OF 374.3530 FROM KOREA

(IN THOUSANDS OF DOZENS OF PAIRS)

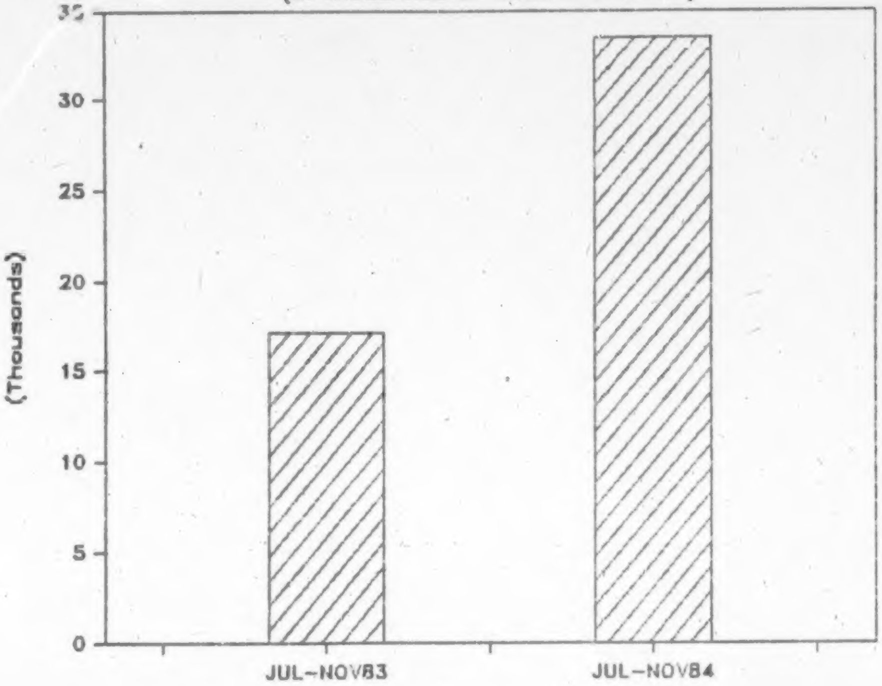


Chart 12

374.3530, I/P RATIO, TAIWAN
(IN PERCENT)

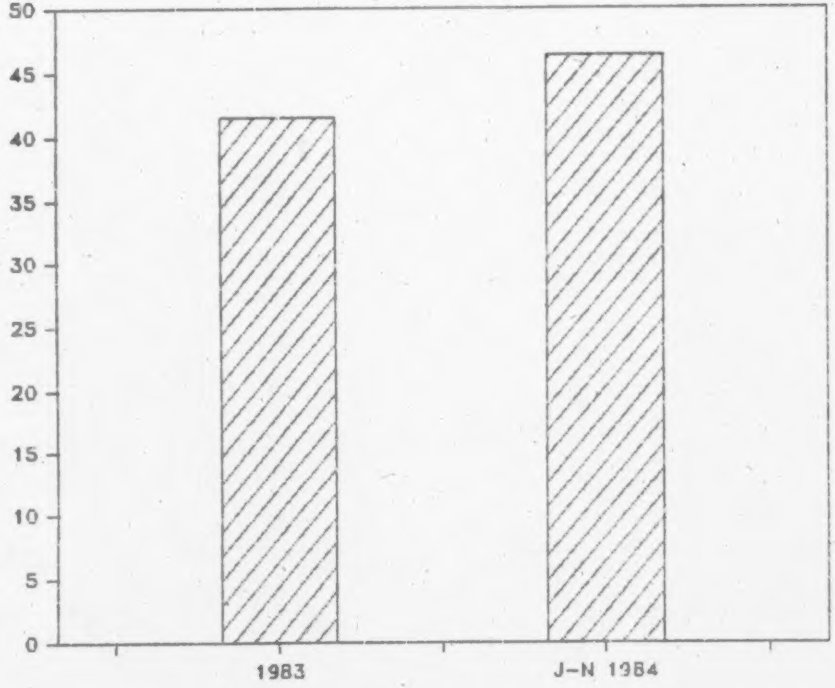


Chart 13

374.3530, I/P RATIO, KOREA
(IN PERCENT)

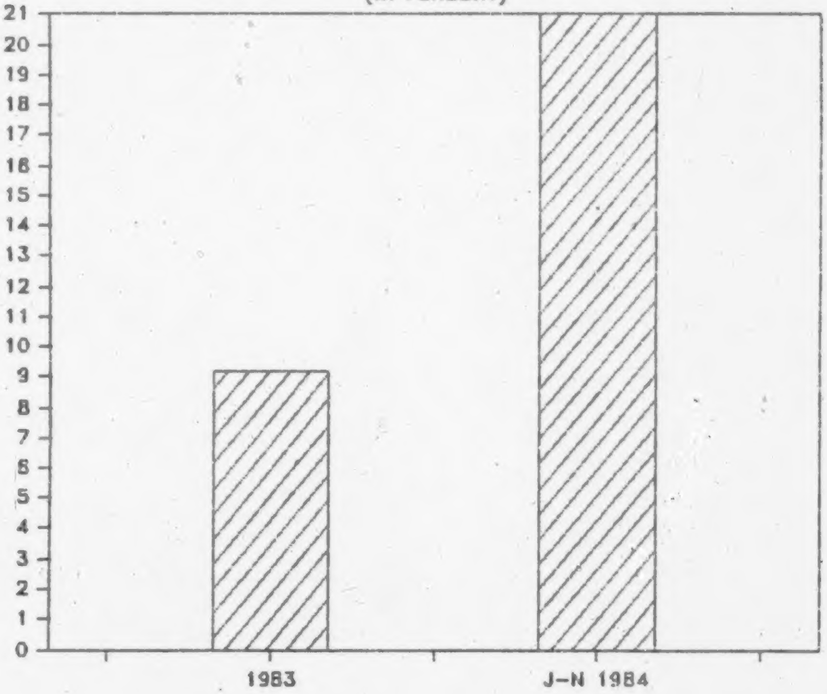


Chart 14

IMPORTS OF 374.3550 FROM TAIWAN

(IN THOUSANDS OF DOZENS OF PAIRS)

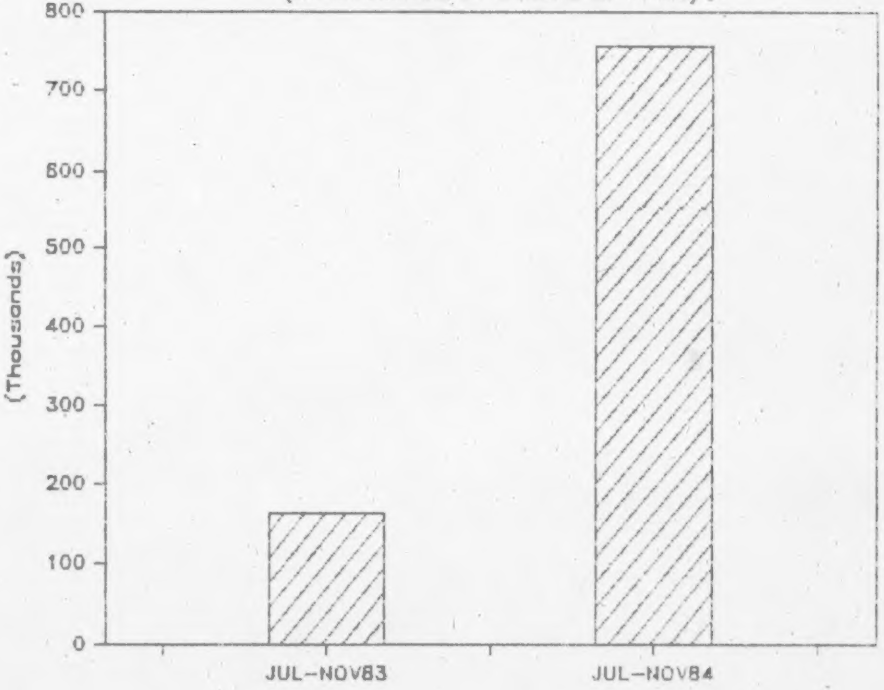


Chart 15

IMPORTS OF 374.3550 FROM TAIWAN

(IN THOUSANDS OF DOZENS OF PAIRS)

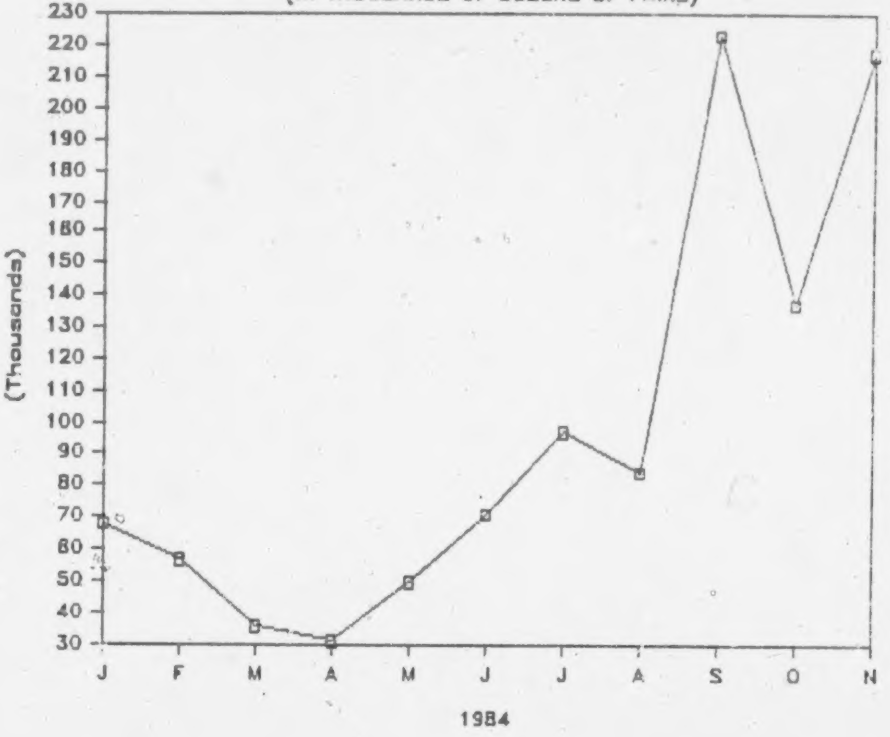
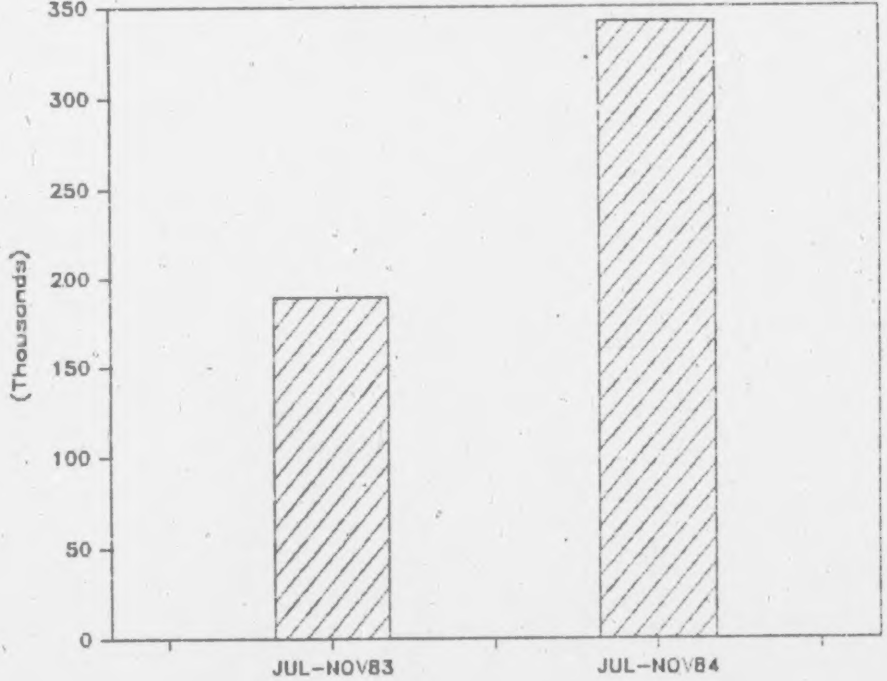


Chart 16



IMPORTS OF 374.3550 FROM KOREA

(IN THOUSANDS OF DOZENS OF PAIRS)

Chart 17

374.3550, I/P RATIO, TAIWAN
(IN PERCENT)

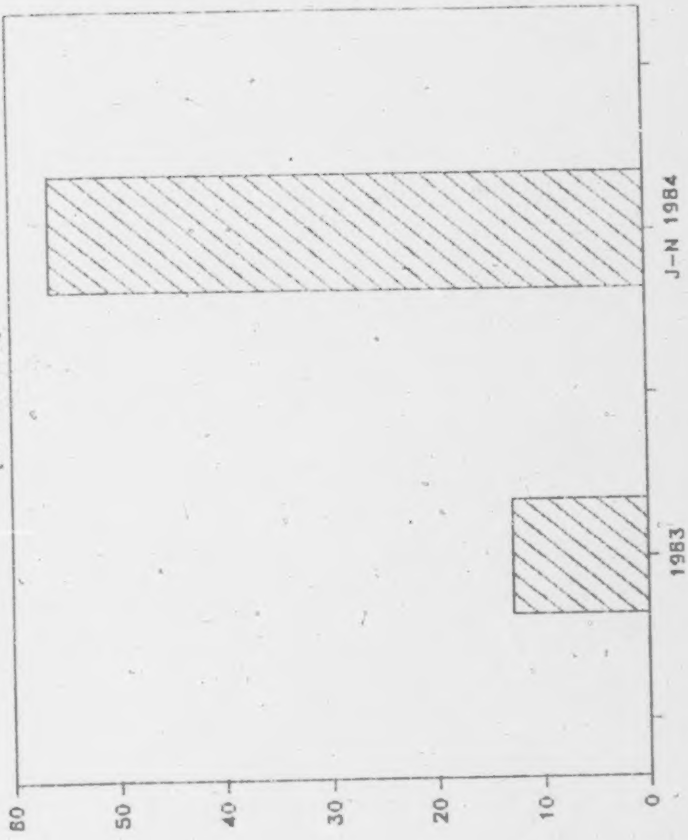
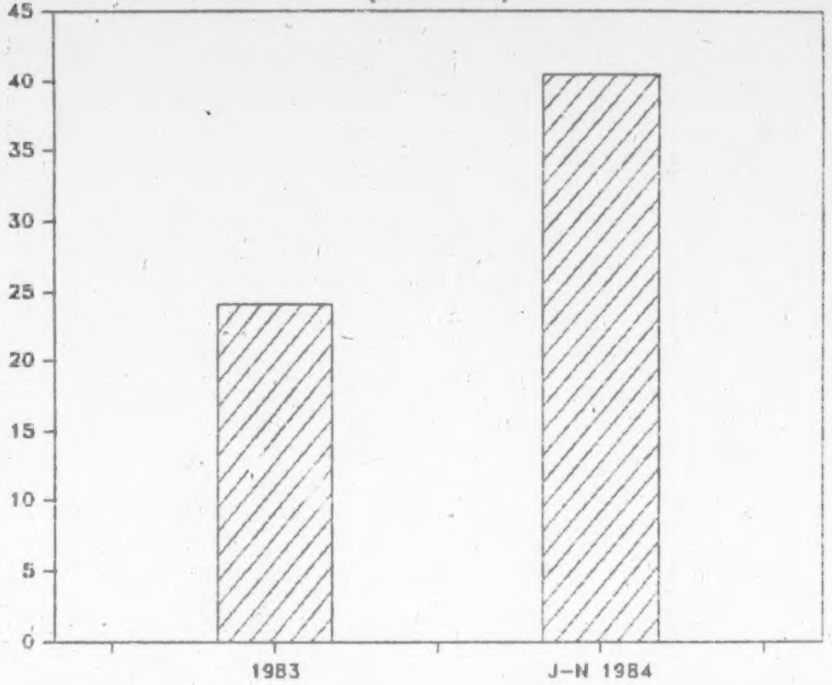


Chart 18

374.3550, I/P RATIO, KOREA

(IN PERCENT)



STATEMENT OF HENRY NESHEM, PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS

Once again, as American wheat farmers we are having to defend our markets and incomes from yet another protectionist move by another industry group. While we sympathize with the domestic textile and apparel industry over the effects of an over-valued dollar and its impact on our economy, we will not concur with their selected course of action to address the problem.

In 1983 we lost over 500 million dollars in wheat sales to China due to a dispute over approximately 50 million dollars worth of textiles. Again in 1984 our market in China was harmed by still another dispute involving the "Country of Origin" regulations on textiles and apparel. This new protectionist move threatens a dozen nations who last year accounted for 2¼ billion dollars in U.S. wheat sales or 35 percent of our total exports. We cannot be certain that if these nations are forced to drastically reduce their textile and apparel shipments to the U.S. that they will not seek to retaliate by cutting their imports of wheat or other products from us.

At a time when American wheat farmers are being asked, and are moving towards greater reliance on the market place in realizing a profit, it seems only fair that the domestic textile and apparel industry be asked to do the same.

Granted some of the problems of the textile industry are due to the over-valued dollar, but U.S. agriculture exports are suffering just as much. We cannot just sit idly by while import sensitive industries are protected and export-sensitive products are ignored.

U.S. WHEAT EXPORTS—CROP YEAR 1984

Country	Million metric tons	Millions of dollars	Rank of wheat among total U.S. imports (1983)
Total U.S. exports	42.072	$6,451.4	
China	4.02	575.3	1
Japan	3.37	534.4	5
Pakistan	.222	31.9	4
Indonesia	.817	129.4	1
India	.270	43.4	1
The Philippines	.714	121.6	2
Thailand	.088	15.0	6
Brazil	2.56	395.8	1
Singapore	.032	5.4	121
Total	12.102	1,852.2	
Percent of total U.S. wheat exports	28.7		
Hong Kong	.113	18.2	27
Taiwan	.654	293.8	8
Korea	1.97	293.8	4
Total	2.737	421.1	
Percent of total U.S. wheat exports	6.5		
Grand total	14.839	$2,273.3	
Percent of total U.S. wheat exports	35.3	35.2	

According to a preliminary analysis of the "Textile Apparel Trade Enforcement Act of 1985", textile and apparel exports to the U.S. from the first nine countries listed above would drop an average of 45 percent in volume if the legislation goes into effect. The last three countries listed above would experience a similar decline of 25.7 percent.

NATIONAL ASSOCIATION OF WHEAT GROWERS,
Washington, DC, April 18, 1985.

DEAR CONGRESSMAN: The American wheat exporting industry, along with many other industries, is greatly concerned about our nation's huge trade deficit. While much attention has been focused on the rising level of our imports, I, as a wheat farmer, am even more concerned about our falling level of exports. Some 60 percent of what I produce is exported, making me and other wheat producers among the most export sensitive business people in the country. Whenever we see obstacles which could harm our export position in the world, we feel obliged to bring it to your attention.

One such obstacle we now face is the "Textile and Apparel Trade Enforcement Act of 1985," HR-1562/S-680 which, in our opinion, if passed, would invite retaliation by some of our best wheat customers. Our fear is that these nations may cut or halt their wheat imports from the United States.

The "Textile and Apparel Trade Enforcement Act of 1985" would establish quotas for all textile imports on a category by category basis. These quotas would be applicable to all countries except Canada and present members of the European Community. The bill purports to allow an annual 1 percent growth on trade from "major exporting countries", defined by the bill as countries with 1.25 percent or more of total U.S. imports. In reality, most of the 12 "major exporting countries" would experience severe reductions in the amount they can export.

If one considers only the categories in which these countries currently have trade, there is no allowable growth for any of them. Overall, the reductions would average 20-30 percent; however, some of our biggest trading partners will experience cuts well over 50 percent.

For example, China would be cut back by about 57 percent; Brazil by 59 percent; Thailand and Taiwan by about 45 percent and Indonesia by over 70 percent. In return, these countries, as well as others affected by this bill, would seek to take appropriate measures against the United States. Closing their markets to our major export products would be the primary focus of their retaliation. The twelve "major exporting countries" referred to above—which include China, Brazil, Taiwan and Thailand—accounted for 35 percent of all U.S. wheat exports in 1984. These exports were valued at over $2.2 billion.

In addition, the bill would have other effects, less direct perhaps, but just as harmful, on our potential export markets. Many of the adversely affected countries, whether or not considered major, are underdeveloped. Textiles are one of their main exports and one of the few they can use to gain foreign exchange so they can buy U.S. products. Without the necessary currency, their ability to develop will be curtailed as will their potential as a market for U.S. exports. By stifling the development of some of the more severely in-debted countries, and by draining them of important foreign exchange currency, we will further threaten them with insolvency. All of this results in decreased export markets for U.S. products.

For the above stated reasons, I strongly urge you to oppose adoption of this legislation. Rather than spending time and effort seeking to close our markets to competing products, I feel that all of us, whether wheat farmers, apparel workers or steel company executives, should join together to address our common concern: the over-valued dollar brought on by a combination of factors including deficit spending and flawed monetary policy. To simply pursue the protectionist policies of this bill serves only to treat the symptoms of our problem, not the root cause. Wheat farmers stand ready to work with other industry and consumer groups to find ways to bring down the value of the dollar and to help U.S. citizens adjust to employment shifts in a changing world trade picture.

I sincerely hope that you will choose to support such moves rather than protectionist policies harmful to our entire economy.

Sincerely,

HENRY NESHEM,
President.

STATEMENT OF SETH M. BODNER, EXECUTIVE DIRECTOR, ON BEHALF OF NATIONAL KNITWEAR & SPORTSWEAR ASSOCIATION

SUMMARY

In support of H.R. 1562, The National Knitwear and Sportswear Association (NKSA) points out present defects of the statutory authorities and international agreements with respect to certain blended products, the result of which has been a surge of imports of uncontrolled, low-wage based sweaters and other knitted products into the U.S. market, that compete directly with domestically produced garments.

Ten million dozen of these garments, blended to avoid present international agreements and quotas, entered the United States in 1984, an increase of 383% over the level of 1982. Virtually all come from countries whose exports are subject to agreed controls under the MFA, and virtually all are in heavily impacted categories deemed highly sensitive by the U.S. in previous negotiations.

Government witnesses failed to mention that issue in their prepared statements to the Committee, notwithstanding the massive volume of goods involved, and notwithstanding the public flouting of the Textile Import Program which these garments represent. H.R. 1562 would close this loophole as well as provide longer term stability for domestic producers.

STATEMENT

This statement is filed on behalf of the National Knitwear and Sportswear Association (NKSA), a national association representing more than 450 knitwear and sportswear manufacturing and design firms plus more than two hundred supplier company members including producers of yarns, fibers, machinery and other materials and services related to production of knitwear and sportswear. NKSA's membership is diversified, and includes producers of sweaters, knit shirts and blouses, headwear, coordinated knit and woven sportswear, swimsuits, and various accessory products. They are located throughout the United States.

The story of knitwear imports has been reported frequently to the Congress. It continues, with each year adding still more chapters, and heightening the problem. Last year saw still another unfortunate record broken. More than 1,250,000,000 knitted garments were imported into this country.

As indicated in testimony given by several industry and government witnesses, and confirmed in testimony by importer and retail witnesses, sweater and knitted shirts and blouses remain among the most heavily impacted product areas. According to Deputy Assistant Secretary of Commerce Lenahan, imported sweaters accounted for some 68 percent of the total U.S. sweater market last year.

These trends cannot be reversed by technology alone. Our industry has adopted the latest in computerized electronic, knitting equipment. Congress has helped by passage of duty suspension legislation to enable the industry to acquire machines no longer made in the United States from foreign sources without payment of duties.

Our industry is technically sophisticated and constantly searching out new developments. But none of these can offset the allure of extraordinarily cheap and plentiful labor in this labor intensive area of manufacture. As was pointed out in testimony before the Committee, China and other countries which account for the greatest portion of our imports and our import problem pay wages ranging from 10 cents to under $1.00 per hour. Knitting industry technology cannot overcome that gap at the present time. Style and fashion can move only so fast.

American workers can work with the best, but not for the least. Better and more effective protection is essential if this industrial sector and these jobs are to be preserved. American knitwear accounts for some 400,000 manufacturing jobs from fibers through yarns into apparel. Congress must deal with the threat to these jobs now.

This dramatic rise in imports continues an alarming trend which is shown on the tables and charts shown in Appendix I to this statement. Make no mistake, the American knitwear industry is seriously threatened with each year's erosion of market share, loss of companies and further import penetration. That, unfortunately, is the routine part of this matter. There is more.

NEW MEANING TO "OVERSIGHT"

Testimony presented to the Committee in separate statements by Mr. Lenahan, and Ambassador Imus, failed to touch on *the* major development of the past year: the massive surge into this market of garments produced with blends of fibers calculated precisely to exclude the resulting product from coverage under the FMA. These are the ramie-cotton blends, the linen-ramie-cotton blends, the silk-acrylic blends, and so on.

Both of those important government witnesses' prepared statements ignored this problem. But, it has become too big to be ignored. Some ten million dozen garments of these various non-FMA blends were imported in 1984 alone, an increase of 171% over 1983 and fully 383% over the level of 1982. Indeed, even witnesses for the retail community anticipated comment on the subject and sought in their statements to brush it aside with the bold but untrue assertion that these products are not produced in the U.S.

These imports of so-called "Non-MFA" products, are growing at a fantastic and devastating rate, and they are concentrated heavily in knitwear, most especially in sweaters. In 1982, imports of these non-MFA sweaters amounted to 529,986 dozen garments, while in 1983 they were 1,190,363 dozen. In 1984, however, they soared to 4,509,415 dozen, or an amount equal to more than one-third of total sweater imports subject to possible MFA control, and more than twenty-five percent of total sweater imports. Put another way, the MFA did not reach one-quarter of the sweaters imported last year, and there is no doubt that this percentage grows every month that no action is taken. [(And I conclude here those imported from developed countries against which controls are not typically sought because of their general labor cost and pricing comparability with American-made goods.)]

Furthermore, there is no doubt that these garments of linen-ramie-cotton blends, silk-acrylic blends, and similar constructions compete directly with all cotton and all acrylic or silk garments which are produced in the United States, which are identical in use and construction with those blended to avoid the FMA quota system. The ramie-cotton sweaters were manifestly blended to avoid the quotas on cotton sweaters. They are virtually indistinguishable from all-cotton garments (indeed, laboratory analysis is required to identify the difference in many cases), sell in the same markets, and are directly competitive with the domestically made product. Such imports cause lost sales by domestic cotton growers, yarn spinners and sweater knitters. Dyeing and finishing work is lost. The effect of these imports is no different than that caused by imports covered by the MFA, and subject to its restraint and anti-market disruption provisions.

But these are not. They come in outside the MFA mechanism designed to prevent precisely the market disruption caused by the imports. And these non-FMA sweaters are coming almost totally from the major low-wage, low-cost producers whose MFA-covered sweaters and other knitted garments are already under import control—China, Hong Kong, Korea and Taiwan.

In 1984, these four suppliers alone accounted for imports of 4,420,720 dozen sweaters which fell outside of MFA based controls, or 98% of the total of these non-quota garment imports. Indeed, the volume of these non-MFA sweater imports from the "big four" foreign suppliers is the equivalent of another giant supplier in the market.

These blended garments were in addition to the massive numbers of MFA-type fiber blend garments shipped by those countries and, like those MFA type garments, compete directly with those produced in the U.S. Beyond all doubt, these garments were prepared to respond to the consumer demand for cotton goods. They were not the creatures of a consumer demand for ramie knitwear. Indeed, who in the U.S. consumer market had ever heard of ramie? Rather than buy all-cotton garments domestically (or imports subject to quotas or possible quotas) importers and retail interests sought to exploit the U.S. consumer interest in natural fibers by evading existing restraints on cotton garment imports via these ingenious fiber blends and the cheap foreign goods available ex-quota. Their quota avoiding purpose and approach were made clear in their own contemporaneous and widely quoted statements from the trade press. "To avoid getting caught in the Hong Kong quota trap, U.S. Company/ is making its holiday and spring sweaters out of a 55/45 ramie/cotton blend." (Letter from Swagman (Int'l) Ltd.-a H.K. based company, to Stanly Knitting Mills, Aug. 1983.)

This season our new yarn is 53% linen, 47% cotton, which is also quota free to your country." (Letter from Swagman (Int'l) Ltd.—a H.K. based company, to Stanly Knitting Mills, Aug. 1983.)

"To get around the lack of quotas in China and the stiff price for quotas in Hong Kong, exporters are switching to garments made from nonquota materials, most notably silk and acrylic, silk and angora, and ramie." (WWD 2/23/84)

"Given basic price hikes, quota prices and lack of quota, buyers can expect a flood of exotic blended knits for fall. Big this year are ramie-cotton, linen-cotton, silk-acrylic, and silk angora blends which circumvent quota restrictions, at least for now." (DNR 2/21/84)

"The fact that (linen) is a low duty, non-quota fabric made it hard to resist now. Any importer that has any knowledge about doing business in the Far East should be taking advantage of linen." (DNR 9/6/83)

In the words last year of one importer-marketer, "We're going to be ramied to death." He was too close to being right. Ten million dozen garments into the market cannot be ignored under any circumstances. When these garments can neatly circumvent an established policy designed to protect domestic workers and firms, to save domestic jobs and economic opportunities, then something is fundamentally amiss.

When government officials charged with development and enforcement of the textile import program appear before the Congress and fail even to mention the issue in their prepared statements, then something still greater is wrong.

This omission is all the more surprising since the government, speaking through Ambassador Imus, brought the development of this problem formally to the attention of the MFA parties at the major review session in Geneva last October. For

Ambassador Imus and Deputy Assistant Secretary Lenahan to comment on the textile import program and its implementation, much less to comment on overall conditions in the domestic industry, without so much as a passing mention of these burgeoning imports of non-MFA garments is, to put it charitably, an "oversight" surely worthy of an "oversight" hearing.

Perhaps their concern is that some legislative review might develop an alternative to the present untenable ostrich policy on this subject.

Members of this Committee should be made aware of the situation and why the trade is not covered under the current MFA. The legislative foundation for the MFA is Section 204 of the Agriculture Act of 1956, as amended, which provides in relevant part as follows:

"The President may . . . negotiate with representatives of foreign governments . . . to obtain agreements limiting the . . . importation into the United States of any agricultural commodity or product manufactured therefrom or textiles or textile products . . . and . . . issue regulations governing the entry . . . of any such product, textiles, or textile product . . . in addition of a multilateral agreement has been . . . concluded . . . among countries accounting for a significant part of world trade in the articles with respect to which the agreement was concluded, the President may also issue . . . regulations governing the entry . . . of the same articles which are the products of countries not parties to the agreement. . . ." (Complete text in Appendix II)

Thus the President is authorized to negotiate and implement bilateral agreements to limit imports into the United States of various products, including ". . . textiles and textile products. . . ." Section 204 specifies no limitation on the type of textile or textile products which may be subject to agreements negotiated thereunder. Thus, Section 204 clearly authorizes the President to negotiate agreements on ramie/cotton sweaters, for example, or on silk shirts, or silk/acrylic sweaters, and to carry them out via the customary implementation procedures including, if he so chose, import controls.

But if that is so, one might ask, what is the problem? Under present circumstances, the MFA does not apply to those particular products by virtue of its Article 12 definition of "textiles". This definition is couched in fiber composition terms which require that the articles covered be of cotton, wool or synthetic fiber, or a combination which is in chief value of those fibers, or which is 50 percent or more by weight (17 percent wool) of those fibers (Article 12 text attached as Appendix II).

Thus, even though the President is authorized under new Section 204 authority, to negotiate bilateral or even multilateral agreements on, for example, ramie/cotton sweaters outside the MFA, he lacks specific authority to bring the products under control in the event such negotiations are not successful.

Why is this so?

For products within the reach of the MFA definition of "textiles", he can negotiate bilaterals, or impose controls unilaterally. If the exporting country is a non-participant in the MFA, he relies on the second sentence of section 204 (underscored above) to impose unilateral controls on non-participants, an action specifically provided for and even encouraged by the MFA itself, whose participants sought to avoid being disadvantaged by uncontrolled trade from non-participants.

But that portion of section 204 which reaches non-participants is tied to the "same articles" that are the project of a multilateral international agreement. It works to enforce such an agreement against such articles not against articles not covered by the multilateral agreement.

To establish controls on those products which are not formally defined as textiles for the purposes of the MFA, the President can only negotiate, and negotiate, and negotiate. He has no leverage to bring such negotiations to a conclusion. He lacks sanctioning authority.

He has no Article 3 of the MFA (its unilateral control feature) which provides the defense mechanism to protect the market from disruption when the disrupting MFA country refuses to negotiate, or refuses to settle on terms deemed reasonable by the President. And more crucially, because of the peculiar structure of the second portion of section 204, he has no authority to move against countries not reaching agreement on these products, whether or not the countries are MFA members.

In sum, pursuant to Section 204 the President can enforce bilateral agreement reached on any textile products; enforce controls on the "same articles" as is used by the MFA against countries, whether or not they are MFA members.

But the President cannot enforce controls on non-MFA products unilaterally in the absence of a negotiated agreement.

With the President apparently lacking clear and direct authority to apply controls to imports of these non-MFA products in the absence of specific agreement with the foreign governments concerned, the incentive to reach such agreement among exporting countries now happily flouting quotas on MFA—covered products is of course quite limited.

In the present circumstance, where virtually all of the ramie/cotton, silk acrylic and similar non-MFA blend trade is coming from countries which are participants in the MFA, and indeed which have bilateral agreements with the United States on MFA covered products, the only way in which agreements can be reached is through the making of further concessions by the U.S.

Flouting pays: The quota evaders would have to be paid off in order to agree to limit further growth of this trade, trade not covered under the present series of agreements.

But the U.S. industry simply cannot afford such a round of negotiations. Additional leverage is essential to permit the President to control this trade, to treat these products as though they had been covered from the outset. Only in this way can we avoid rewarding, the evaders with major new footholds in the market, by counting these goods as part of the base for subsequent agreements, and only in this way can we avoid establishing a gigantic loophole in the system.

Perhaps concern about a possible legislative remedy to this situation is why the Administration-cleared statements before this Committee on the situation in the industry and the operation of the Textile Import Program "overlooked" this issue.

H.R. 1562, by including the present non-MFA products under its definitions, would solve the problem raised by the current structural deficiency in Section 204 and would eliminate the loophole in the definitional structure of the MFA which is being so grandly exploited. These reasons alone compel support for this important measure.

The NKSA fully supports the call for urgent action the entire textile and apparel import question as presented by witnesses for the industry and labor groups in open hearings.

Fundamental remedies are needed to prevent total exisceration of the domestic fiber-textile-apparel complex. This statement has focused on only part of the problem, the total avoidance of the MFA system by the use of fiber blending techniques to duplicate covered products while remaining outside the reach of provisions developed over time to prevent disruption of the market.

Structural weakness in present statutory authority is part of the problem, but more fundamental, perhaps, is the capacity of those with authority to avoid the issues entirely.

We thank the Committee for this opportunity to submit comments for the public record and for the Committee's consideration.

> Protection is often invoked to provide an industry an "adjustment period" to modernize and become more competitive. The theory is that it will become healthy and that the protection can then be eliminated. Unfortunately the opposite is usually the case. Not only does protection obviate the need for the protected industry to become more efficient, but the protection entices more resources into a sector that probably already has excess capacity. For example, for several decades textiles has been one of our most protected industries, yet a study in 1982 showed that fully one-third of all the clothing and textile establishments in the country had not been in the industry 6 years earlier. . . .
>
> Let us remember that in the 1960s the protection sought by the industrialized countries for their textile industries was described as "temporary." Would we not all be better off if scarce resources, instead of being attracted to textiles, had been invested in new industries where we enjoy a comparative advantage?
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> -- W. Allen Wallis, Under Secretary of State for Economic Affairs.[1]

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[1] 85 Dept. of State Bull. 41, at 42 (April 1985) (hereinafter referred to as "Wallis Speech").

EXECUTIVE SUMMARY

The Arrangement Regarding International Trade in Textiles, commonly known as the Multi-Fiber Arrangement ("MFA"), provides the basic framework for the international management of trade in textile and apparel products. The U.S. government, through its administration of the MFA, has afforded substantial protection to the U.S. textile and apparel industries, restricting imports of textile and apparel products on a massive scale. As Under Secretary of State Wallis suggests, the time has come for the U.S. to reconsider these counter-productive policies, which have imposed high costs upon importers and retailers, consumers, and the entire U.S. economy. The forthcoming expiration of the MFA in 1986 and the negotiations over its renewal provide a valuable opportunity for the U.S. and its trading partners to restructure the existing global framework for trade in textiles and apparel.

The National Retail Merchants Association ("NRMA") urges the reconsideration of current U.S. textile and apparel trade policies. NRMA is a national, non-profit trade association composed of over 4,000 members who operate more than 45,000 department stores and specialty stores in the general merchandise retail industry. NRMA's members have an aggregate annual sales volume of approximately $150 billion and employ over 3 million workers. Since well over 60 percent of our members' sales are attributable to textile and apparel products, NRMA has a vital interest in the issues relevant to the renewal of the MFA.

NRMA has closely examined the impact of the existing restrictions on global textile and apparel trade and consulted with all concerned members of the retail community. This comprehensive policy paper is the result of these efforts. It evaluates the alternative policy choices available to the U.S. and its trading partners and recommends which of these choices best advances the interests of the U.S.

Specifically, NRMA recommends that the U.S. and its trading partners return the MFA to its original purpose, that is, to serve as an interim measure which eases the adjustment from the restrictive trade barriers now in place to a less restrictive set of trading rules. The MFA should be restructured so as to promote the expansion of textile and apparel trade through the gradual removal of unilateral and bilateral restrictions on such trade. At the same time, the MFA should serve to ensure that textile and apparel industries in developed countries adjust to international competition gradually while the economic development of nascent textile and apparel industries in less developed countries proceeds. Thus, there should be a carefully circumscribed mechanism to restrict imports of textile and apparel products which do, in fact, disrupt the market of importing nations.

To ensure that these balanced goals of growth, development and gradual adjustment are met, the U.S. and its trading partners should renew the MFA subject to the following conditions:

(1) The MFA must contain a mechanism which ensures its phase out at a date certain.

Such a mechanism is necessary to ensure that the MFA only serves as an interim measure and does not continue as a system of permanent protection. Termination of the MFA in 1991 -- after five years -- provides ample time for domestic industries to adjust to international competition. The adoption of mechanisms for phasing-out the MFA will also ensure that when the agreement does expire, policy-makers are not left with the all-or-nothing choices of the past (i.e., between highly restricted trade and virtually unrestricted trade). The MFA's phase-out can be accomplished in a number of ways, including, inter alia: (1) adherence to the MFA's requirement for 6 percent growth of imports subject to quota; and (2) a ban or limitation on importing nation's ability to restrict imports unilaterally.

(2) The MFA must contain mechanisms which ensure that MFA signatories adhere to the rules of managed trade established thereunder.

The MFA has failed to achieve its original goals because importing nations -- including the U.S. -- have violated its rules and imposed the very types of restrictions it was designed to prevent. In practice, the MFA has been used to legitimize numerous unilateral actions against textile imports inconsistent with MFA purposes and not authorized by MFA rules. Thus, mechanisms must be established to ensure national compliance with the MFA and prevent the disintegration of the textile trading system back into the chaos of more severe national forms of protection. Such compliance mechanisms could include national pledges of adherence to the MFA, the establishment of an international body which has authority to enforce the MFA (and whose approval is necessary for the imposition of unilateral restrictions thereunder), and a new MFA provision which requires that signatory nations codify the MFA's rules (particularly its preconditions for unilateral actions) as part of their national laws or regulations. In this regard, if the MFA's rules were directly incorporated into federal regulations, it would be unlawful for U.S. government agencies to violate them. Thus, such a provision would ensure that national actions are taken only where they meet the standard established by the MFA (*i.e.*, that proof of market disruption be demonstrated). U.S. agreement to these compliance mechanisms would also do much to restore the reliability and credibility of the U.S. as a trading partner.

(3) Steps should also be taken to promote the MFA's economic development goals.

Contrary to past U.S. practice, the MFA should not be used as a vehicle to legitimize U.S. trade restrictions on the small proportion of textile and apparel imports from developing nations which are small suppliers. Such actions are inconsistent with the MFA and distort the normal processes of economic development, artifically shifting development toward products not subject to quota.

(4) The U.S. should mitigate the employment effects of the economic adjustment process by instituting programs to aid displaced workers.

As textile and apparel trade expands and the normal economic adjustment processes begin to operate, there may be some displacement of textile workers and other economic dislocations in the textile and apparel sectors of the industrialized nations' economies. While "quotas may save jobs," they do so only at high costs to consumers, retailers and the overall economy; quotas also deprive textile workers of the opportunity to shift to higher paying positions in sectors of the economy where the U.S. has a comparative advantage. The U.S. and its trading partners therefore should not preserve these jobs through expensive quotas, but should instead adopt creative programs to ease displaced employees and their families into better positions in other sectors of the economy. Such programs could include retraining, severance pay, relocation allowances and, where necessary, other more individualized forms of aid.

(5) The U.S. should afford retailers and other interested parties due process in the formulation of textile trade policies.

For the most part, the process for the formulation of U.S. policies on textiles and apparel has been closed and one-sided. While the domestic textile and apparel industries are consulted, other affected domestic industries are not. Restrictions are imposed on imports without notice, an opportunity to comment and other appropriate forms of due process. Further, while representatives of textile and apparel industries are invited to attend U.S. multilateral and bilateral negotiations, representatives of other industries traditionally have been excluded. NRMA believes that the U.S. policy process should be opened to all affected parties, including the retail community. The establishment of procedures to ensure due process will also minimize the risk that the U.S will err in its application of MFA rules to a given situation (i.e., and prevent the U.S. from imposing unilateral restrictions where they are not jusitified under the "market disruption standard" of the MFA.)

* * *

For the long term (i.e., after the renewed MFA expires), NRMA endorses the application of the rules established in the General Agreement on Tariffs and Trade ("GATT") to textile and apparel trade. The GATT prohibits signatory nations from establishing discriminatory restrictions on imports and, subject to certain exceptions, requires that trade proceed on an unrestricted basis. The application of these rules will ensure the normal operation of the economic adjustment process in textiles and apparel. Resources will be efficiently allocated between textiles and apparel and other sectors of the economy and consumer welfare will be maximized. The GATT rules prevents the misallocation of resources resulting from quotas, which cause high prices that send distorted economic signals and encourage investment where it is not warranted. Under GATT rules, importers, retailers and consumers also will no longer be confronted by higher prices and lower quality merchandise, which they now face under quotas.

However, notwithstanding the numerous advantages of GATT rules, NRMA does not support the immediate application of GATT rules to textile and apparel trade. In this regard, NRMA recognizes that there is a risk that the immediate application of GATT rules may result in costly economic dislocations. Further, given the political strength of the domestic textile and apparel industries, this policy choice may not be a real one. A decision not to renew the MFA now may very well result in the enactment of U.S. legislation which imposes even more severe restrictions on textile and apparel trade than those contained in the MFA.

In short, NRMA believes that the renewal of the MFA subject to the terms and conditions set forth above holds out the best prospect that GATT rules can eventually be made effective in this long-protected sector of the global economy.

INTRODUCTION

This paper establishes the policy framework within which the U.S. government and other textile trading nations should formulate their positions with respect to the renewal of the MFA.

Section I sets forth the basic objectives which the U.S. should seek to achieve through its textile and apparel policies. Section II describes the policy setting for MFA renewal -- the origins, objectives and rules of this system of managed textile and apparel trade -- and evaluates the extent to which this system has achieved its goals in practice.

Within this policy setting, Section III evaluates the economic, political, institutional and other considerations which the U.S. and its trading partners must take into account in formulating their positions on MFA renewal. Finally, in light of these policy considerations, Section IV sets forth the basic policy choices for MFA renewal and evaluates the benefits, costs, and risks of these choices. In conclusion, NRMA recommends which of these policy choices best accomplishes the U.S. objectives for its textile and apparel sectors and therefore should be asserted as the U.S. position in negotiations to renew the MFA.

I. U.S. POLICY OBJECTIVES FOR TEXTILE AND APPAREL

Virtually all interested parties agree that the U.S. should pursue the following objectives with respect to its policies on textiles and apparel:

- the sustained growth and vitality of the U.S. economy, including its textile, apparel, and retail industries;
- the alleviation of the U.S. balance of payments deficit through the growth of U.S. export earnings and the maintenance of internationally competitive textile and apparel industries;
- the efficient allocation of U.S. investments, productive resources and employment resources between the textile and apparel industries and other sectors of the U.S. economy;
- the maximization of consumer welfare, including the growth of consumer demand for textile and apparel products, the lowering of textile and apparel prices, and the broadening of available merchandise to meet changing consumer tastes;
- the diminution of the short-term dislocational costs which may result from the economic growth, efficient resource allocation and the enhancement of consumer welfare; and
- the avoidance of diplomatic frictions between the U.S. and its trading partners and the maintenance of U.S. reliability and credibility as a trading partner.

While the U.S. objectives are clear, the consensus breaks down on what, if any, U.S. policies will best achieve these goals. Will greater or fewer restrictions on the importation of textile and apparel articles lead to economic growth, allocational efficiencies, consumer happiness and increased employment opportunities? What policy can achieve these goals without causing substantial short-term dislocations in the U.S. textile and apparel industries? And so on.

To assist U.S. policy-makers in formulating the most appropriate U.S. position on MFA renewal, this paper assesses the potential success of alternative policy choices against these U.S. objectives. Of course, these goals are not always mutually reinforcing and U.S. policy-makers must often make trade-offs between them. This paper undertakes this process, making *explicit* the trade-offs between U.S. objectives which are *implicit* in selecting each of the major policy options on MFA renewal. In the final analysis, it is then up to U.S. policy-makers to select the policy choice which best achieves the overall national interest.

II. THE POLICY SETTING: THE MANAGEMENT OF TEXTILE AND APPAREL TRADE IN THEORY AND PRACTICE

Modern trade in textiles and apparel has evolved under the internationally-established system of restrictions established in the MFA. Since this unique and multi-faceted system of managed trade forms the setting in which policy-makers in the U.S. and other textile trading nations now must formulate new policies on textile and apparel trade for the rest of the decade and beyond, it is crucial that such policy-makers understand the MFA's track record.

A. The Origins Of The MFA System

The system of textile trade regulation in place today began to emerge in the mid-1950s, when U.S. domestic textile and apparel industries began to face strenuous competition from overseas. Japan in particular, with its new and state-of-the-art plant facilities, developed into the major challenger in the textile and apparel sectors, reestablishing the preeminent market position which it had had prior to World War II. In response to pressure from the United States, Japan "voluntarily" agreed to limit exports to the U.S. beginning in 1955; it later expanded these restrictions in a five-year program instituted in 1957. By the late 1950s, several other industrialized nations had also negotiated voluntary agreements with major cotton textile producing nations.

As such voluntary agreements entered into effect in the late 1950s and early 1960s, the pattern of textile trade prevalent today began to emerge. As one developing textile industry after another came under regulation, new and unregulated industries began to emerge in yet other countries. The development of these nascent industries in turn put increased import pressures on the U.S. and Europe and caused an impetus for even more expanded protectionism. These political and economic pressures culminated in the Short-Term Arrangement in Cotton Textiles, agreed to in July 1961, and then the Long Term Arrangement Regarding International Trade in Cotton Textiles ("LTA"), reached in February 1962. These novel agreements established a framework for the multilateral restriction of trade in cotton products (*i.e.*, products being over 50% cotton by weight).

As technology developed and fashions changed, the production of man-made fibers and blending of synthetic and cotton fiber expanded, both domestically and internationally. This development, together with the increase of textile production in newly emerging nations and pressures from developed nations' industries, led the U.S. to demand limits on blends and man-made fibers from major exporters (Japan, Korea, Taiwan and Hong Kong). These pressures finally resulted in the MFA, a multilateral agreement which covers a broader array of fibers than the LTA and serves as the centerpiece of textile trade regulation today.

The evolution of restrictions on textile and apparel trade is thus marked by a shift from unilateral to bilateral to multilateral agreements covering an ever expanding array of products. Protection has itself spawned further protection as newly developing industries shift toward the production of unregulated products which themselves are then made subject to quotas. The net result of this distorted process of economic development is the wholesale regulation of textile and apparel trade under the MFA.

B. The MFA In Theory: An Instrument For Gradual Trade Liberalization

A temporary trade measure designed to ease the adjustment from the harsher trade restrictions which preceded it to the more liberalized trading rules which, under its terms, would eventually replace it,[2] the MFA entered into force in 1974 for a four year period. For this transitional period, the MFA established a balanced framework for managed trade in textiles and apparel which: (1) ensures continued trade expansion and the gradual removal of trade restrictions; (2) promotes the economic development of nascent textile and apparel industries; and (3) and affords industries in developed nations the time to restructure and adjust on a gradual basis to the competitive realities in the world marketplace.

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[2] The temporary character of the MFA is clearly indicated in Article I, wherein the signatories agree that "[i]t may be desirable during the next few years for special practical measures . . . to be applied by the participating countries in the field of textiles . . . ." (Emphasis added.) MFA, Art. I(1). *See also Wallis Speech*, *supra*, at 42.

As stated in Article 1:

> The basic objectives shall be to achieve the expansion of trade, the reduction of barriers to such trade and the progressive liberalization of world trade in textile products, while at the same time ensuring the orderly and equitable development of this trade and avoidance of disruptive effects in individual markets and on individual lines of production in both importing and exporting countries.

MFA, Art. 1(2).

To begin this process of trade liberalization, Article 2 required MFA signatories to terminate all existing unilateral restrictions on textile and apparel products not expressly authorized under the agreement. By virtue of this provision, importing nations could only replace such unilateral restraints on trade with the less restrictive measures sanctioned by the MFA.

Article 3 of the MFA serves as the basis for such unilateral restrictions. Specifically, it only authorizes the imposition of bilateral and unilateral restrictions on trade in textile and apparel products where an importing nation determines that its "market" is being "disrupted" by imports of a particular category of textile products from a specific nation. MFA, Art. 3(3). An importing nation which seeks to utilize the MFA's unilateral restraint mechanism must first determine that the standard for market disruption contained in Annex A to the MFA has been met. Thereafter, it must issue a request for consultations with the nations whose exports are at issue and attempt to gain agreement on a restraint level. If no such restraint agreement has been reached within 60 days after the request has been received, the importing nation may automatically establish quantitative restrictions on affected imports for a one-year period. In recognition of the uncertainties and disruptions caused by the reliance on the market disruption mechanism, the MFA signatories agreed that this mechanism "should only be resorted to sparingly and its application shall be limited to the precise products and to countries where exports of such products are causing market disruption . . . ." MFA, Art. 3(2).

To facilitate "the orderly expansion" in textile trade and to eliminate "real risks of market disruption" in importing nations, Article 4 of the MFA authorizes signatories to negotiate quantitative restraints on imports "on mutually acceptable terms" provided that such restraints are more liberal than those provided for by Article 3 (in terms of both base levels and growth rates for imports subject to quota). Significantly, Article 4 sets a floor for the expansion of the trade regulated thereunder; imports subject to bilaterals established under this provision must grow at least 6% per annum. Article 4 also provides that bilateral agreements established thereunder must be designed and administered to allow the export of regulated products "in full" (i.e., up to the quota ceilings established by the agreement). Further, bilaterals established under Article 4 "shall include provisions assuring substantial flexibility for the conduct of trade thereunder . . . ." MFA, Art. 4(3). In this regard, the MFA establishes "flexibilities" encompassing, among other things, "carry forward" (which allows unused quota from one period to be used in a later period) and "interchangeability" of natural, artificial and synthetic fibers (which allows unfilled quota from one fiber grouping to be used for similar merchandise made of another fiber). MFA, Arts. 4(3) & 5.

As the basis for a large number of bilateral agreements which provide for the orderly growth of textile imports regulated thereunder, Article 4 is perhaps the centerpiece of the MFA's policy of adjustment toward unrestricted trade in textiles and apparel.[3] Indeed, the

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[3] Many of the bilateral agreements negotiated under Article 4 also have provisions analgous to Article 3 of the MFA, and allow the importing nations to initiate requests for consultation with respect to product categories not (footnote continued)

U.S. itself has entered into bilaterals with 28 nations pursuant to Article 4. Each bilateral sets an aggregate limitation on total textiles and textile product exports to the United States from the country in question and establishes limitations for groups of products or specific categories of "sensitive" products.

The MFA is also intended to "further the economic and social development of developing nations . . . and secure a substantial increase in their export earnings from textile products and to provide for a greater share for them in world trade in these products." MFA, Art. 1(3). In this regard, the MFA requires that importing nations "provide more favorable terms" in the bilateral restraint agreements they enter into with developing nations. MFA (6)(1). In line with this policy of "special treatment," the MFA requires, among other things, that: (1) imports from developing nations which are subject to quota must be allowed to grow at a higher growth rate than otherwise required under the agreement; (2) restraints "should normally be avoided" if the exports from such countries

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specifically regulated thereunder where the importing nation has made a determination of market disruption. Some of the bilaterals allow ninety days for consultation rather than the sixty days allowed for such consultations by the MFA. See, e.g., U.S. - Sri Lanka Agreement concerning Trade Cotton, Wool and Man-Made Fiber Textiles and Textile Products, done June 10, 1983, TIAS 9869.

constitute only "a small percentage" of the total textile imports of the importing nation concerned; and (3) new entrants must be provided with sufficient base quota levels and growth rates to allow for the development of their industries. MFA, Art. 6(2) & (3).

Notwithstanding its promotion of trade expansion and development, the MFA is plainly a departure from the basic post-war rules of international trade established under the GATT. Contrary to the basic GATT principle of "most-favored nation," under which nations must treat their trading partners in a nondiscriminatory manner, GATT, Arts. I(1) XIII(1), the MFA allows the restriction of textile and apparel trade on a discriminating and country-by-country basis.

Further, the quantitative restrictions sanctioned under the MFA are at variance with the GATT's prohibition against such restraints. GATT, Art. XI(1). And, the market disruption standard in the MFA, which serves as the basis for imposing quantitative restrictions under Article 3, is not one of the exceptions pursuant to which such restrictions are permitted under the GATT. GATT, Art. XI(2) & Art. XX. In this regard, the MFA market disruption standard is inconsistent with the GATT "safeguard" mechanism (known as the "escape clause"), which allows unilateral restrictions to be imposed on any product which is being imported into the territory of a contracting party "in such increased quantities and under such conditions as to cause or threaten serious injury to domestic producers in that territory of like or directly competitive products . . . ." GATT, Art. XIX.

In short, the MFA plainly is a less-preferred alternative to the GATT. It is more restrictive, results in more uncertainty for importers and exporters, raises costs to consumers, and prevents the recognition of the economic gains normally associated with trade under the GATT rules. Yet, from a historical perspective, the policy choice in the textile and apparel sectors has never been a choice between GATT rules and the MFA, but between the MFA and more severe modes of national protection. At key junctures, the political strength of textile and apparel industries in developed nations and their longstanding perception that they are being injured by foreign imports have rendered remote the prospect that GATT rules would be applied. Thus, the historic choice instead has been between the MFA and a chaotic trading system comprised of complex and varying unilateral trade restrictions. In this context, the MFA was always the preferred alternative. By virtue of its temporary nature and its policy of trade expansion, it is intended to promote a gradual evolution toward the less restrictive trading rules embodied in the GATT.

C. The MFA In Practice: An Instrument For Permanent Protection

Notwithstanding the MFA's theoretical merits, it has nevertheless failed to achieve its laudatory goals in practice. Rather than a temporary mechanism to facilitate the adjustment to liberalized trade, the MFA has instead become a permanent protectionist structure which serves to legitimize the very types of unilateral restrictions on textile and apparel trade it was designed to prevent.

1. The Protocols Of Extension

Notwithstanding its planned expiration, the MFA has been twice extended, each time with new provisions that have been construed so as to allow importing nations to impose restraints more restrictive than allowed under the MFA rules. And in each instance, the MFA's extension and interpretation was the result of the same confluence of political and economic forces which led to its adoption in the first place.

The 1977 renewal of the MFA was to a large extent the product of the recession of 1974-76, which dealt a severe blow to the textile and apparel industries in the developed countries. The European industries were particularly hard hit, in part due to the European Community's failure to do much in the way of implementation of the MFA. In the United States, where the MFA had, in fact, been implemented, the combination of controlled oil prices, a rapid recovery from the recession, and the emerging dominance of world class companies in the man-made fiber industry made the "problems" of import competition considerably less severe.[4] Nevertheless, the U.S. textile industry joined with the U.S. apparel industry and American unions in supporting the demands for much increased protection made by the European countries in the 1977 extension negotiations. These political and economic forces resulted in the 1977 Protocol of Extension, which extended the MFA for another four years.

Bowing to the pressure of the EEC, the Protocol contained a provision which allowed the bilateral agreements negotiated thereunder to include "reasonable departures" from the MFA itself provided that "such departures would be temporary and . . . participants concerned shall return in the shortest possible time to the framework of the Arrangement." As a recent study accurately concluded, this new provision:

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[4] Donald B. Keesing and Martin Wolf, Textile Quotas against Developing Countries, London (1980) at 52-55. (Cited hereafter as "Keesing and Wolf").

> represented a serious breakdown in MFA discipline as well as a signal of the trend toward greater restrictiveness on the part of the industrial countries. There were no criteria to determine what was meant by reasonable and no limits were attached to the concept of departure. It was also unclear for how long a period such departures would be valid.[5]

The "reasonable departure" clause thus became a license for the developed countries to ignore the terms of the MFA. In response to intense political pressures, the U.S. has used this provision and its disproportionate bargaining power to obtain much more restrictive bilateral agreements with major developing countries, even reopening a number of bilaterals which had already been consummated. The European nations have also seized upon the "reasonable departures" provision as justification for essentially ignoring the MFA's basic principles.

In 1981, with MFA II set to expire, the renewal negotiations again took place against the background of recession and intense political and economic pressures in developed nations which favored another extension. The negotiations produced MFA III, which is now set to expire in July 1986. Although the "reasonable departure" clause in

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5. The Multi-fibre Arrangement in Theory and Practice, Programme of Cooperation Among Developing Countries, Exporters of Textiles and Clothing (1984), at 15.

MFA II was discontinued under intensive pressure from exporting nations, the developed nations again obtained interpretations of the MFA which served to undermine its basic principles.

Of particular importance, the 1981 Protocol calls on "certain exporting countries now predominant in the exporting of textile products" to exercise "good will" in the negotiation of bilateral agreements. This clause implies that such major exporters (e.g., Taiwan, South Korea and Hong Kong) should accept reductions in the minimum quota levels permissible under the MFA in order to promote good will and avoid pressures for unilateral actions in developed nations. This vague clause has been used by the U.S. and other developed nations to threaten cutbacks in trade if the large exporters did not reduce quota growth rates.[6]

2. Repeated U.S. Violations Of The MFA: The Unravelling Of Multilateral Management Of Textile And Apparel Trade

While a major force behind the establishment of the MFA, the U.S., through its actions, bears substantial responsibility for the MFA's unravelling. Through a series of restrictive trade measures which violate the MFA's terms, the U.S. has jeopardized the integrity of the entire multilateral regime of managed trade established thereunder.

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[6] Aggarural, "The Unraveling of the Milti-Fiber Agreement, 1981: An Examination of International Regime Charge, 37 Int'l Org. 642 (Fall 1983).

(a) The Reagan Pledge: Tying Imports To Growth

During the 1980 campaign, then candidate-Reagan wrote to textile state members of Congress, promising to protect the textile industry from imports. In doing so, he followed a precedent which was established by then-candidate John F. Kennedy in 1960 and followed by successful Presidential candidates ever since then. This promise formed the basis for the Reagan Administration's pattern of disregard for the MFA. During the 1981 MFA renewal negotiations, the domestic industry pressed for a major change in the U.S. position and was successful as the negotiations entered their final days. A letter from then-White House Chief Staff James Baker to Congressman Carol Campbell of South Carolina stated that the Administration would "relate the growth of total imports to the growth of the domestic market." President Reagan subsequently reiterated that pledge, stating that his Administration would strive to work toward a closer relationship of textile imports and market growth "consistent with our existing international obligations." The domestic industry has skillfully used this vague pledge to pressure the

Administration into increasingly restrictive actions which limit imports without regard for MFA standards.

(b) Restrictive Bilaterals With Hong Kong, Korea, And Taiwan

Shortly after the 1981 extension, the United States set out to negotiate new, highly restrictive bilateral agreements with the three largest import suppliers of textile and apparel products to the U.S. market--Hong Kong, Korea and Taiwan. In so doing, the U.S. relied on the 1981 Protocol which, through its "good will" clause, allowed growth rates lower than the 6 percent minimum guaranteed by the MFA in "exceptional cases" where there was a recurrence or exacerbation of market disruption. The net results were restraints on a wide range of products from these countries, with growth limited to between 1/2 and 1-1/2 percent per year.[7] The agreements also dramatically restricted the flexibilities required by the MFA, including the "transfer"

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7. The fact that the exporting nations agreed to these restrictive bilaterals does not cure their departures from MFA principles. The United States was able to obtain agreements with Hong Kong, Korea and Taiwan on these terms because the economies of these countries are highly dependent on textile exports and they could ill-afford the potentially more restrictive unilateral U.S. actions which would have resulted had no bilaterals been reached.

of unused quota from one textile category to another and "carry forward" of unused quota from one year to another.[8]

The Agreements also included a mechanism analogous to Article 3 of the MFA, which allows the United States to make requests for consultation and establish quotas on uncontrolled categories pursuant to a finding of market disruption. Through extensive use of this mechanism, the United States controls virtually all textile and apparel trade from these countries, including 75 percent of all textile and apparel trade from Taiwan; 95 percent of trade from Hong Kong; and 92 percent of trade from Korea.[9]

(c) Negotiations With China

Subsequent to the negotiation of new agreements with Hong Kong, Korea and Taiwan, the United States sought to negotiate a similar restrictive agreement with China. The China negotiations, which began in July 1982 and continued through the remainder of the year, proved more difficult, however, as China viewed the U.S. insistence on lower growth rates and other unfavorable terms as a retreat from previous U.S. statements that China would not be treated as a "major supplier."

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[8] This action was foreshadowed by the Carter Administration's 1979 "White Paper" on the U.S. Textile program which, among other things, called for limitations on flexibilities as one means of controlling "surges" in imports (*i.e.*, increases from one year to the next). *See* *Implementation Of Trade Restrictions For Textiles and Apparel*, U.S. General Accounting Office, at 7 (Nov. 4, 1983) (hereinafter referred to as "*GAO Report*").

[9] *See* Testimony of Richard Imus, Chief Textile Negotiator, before House Subcommittee on Commerce, Consumer, and Monetary Affairs, Committee on Government Operations, 99th Congress, 1st Sess. (March 6, 1985).

To make matters worse, the existing U.S.-China bilateral agreement expired during the negotiations. Rather than continuing to honor its terms, the United States instead unilaterally imposed quotas on 33 categories of textile products from China, thus extending protection far beyond what the expired bilateral contemplated and actually reducing quota levels for some products. This unilateral action triggered retaliation by China against exports of U.S. agricultural products, costing U.S. farmers over $500 million in wheat sales alone.[10]

Despite strong objections by the domestic textile industries, which pressed for a continuation of unilateral restrictions, an agreement was finally achieved in August 1983 due in large part to the counter-pressure generated by an infuriated U.S. agricultural community. While not as restrictive as the Hong Kong, Korea and Taiwan agreements, the U.S.-China Agreement also contained provisions limiting flexibilities and allowing less than six percent growth. In addition, the Agreement included a consultation mechanism through which the United States has subjected over 75 percent of China's textile trade to quota.

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[10] See Prepared Statement of Carl Schwensen, Executive Vice President, National Association of Wheat Growers, Hearing Before the Subcommittee On International Economic Policy Of The Senate Committee On Foreign Relations ("Hearing"), 98th Cong., 2d Sess. at 143 (Sept. 26, 1984).

(d) The December 16th Decision And The U.S. Program Of Unilateral Action

The August 1983 signing of the new U.S.-China bilateral textile agreement resulted in further protectionist pressures on the Administration from the domestic textile industry, which viewed the Agreement as a defeat of its attempt to obtain even greater restrictions on China textile imports. Consistent with these concerns, the domestic industries brought a countervailing duty action against all textile and apparel products from China in September 1983. While no legal basis existed for the petition under countervailing duty law,[11] the domestic industry actions nevertheless raised a dilemma for the Administration. On the one hand, an affirmative ruling against China risked a serious rupture of bilateral trade relations. On the other hand, a negative ruling risked further antagonizing the already angered domestic industry.

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[11] The Commerce Department has subsequently ruled in other cases now on appeal that the countervailing duty law does not apply to products imported from non-market economies. See Carbon Steel Wire Rod from Czechoslovakia, 49 Fed. Reg. 19370 (May 7, 1984); Carbon Steel Wire Rod From Poland, 49 Fed. Reg. 19374 (May 7, 1984).

Confronted with this no-win situation, the Administration reached an extraordinary agreement with the domestic industry. The Administration agreed to unspecified measures to further restrict textile and apparel imports in exchange for domestic industry's withdrawal of its petition, and further agreed to initiate a new investigation and issue a preliminary determination within two days should the domestic industry refile the same petition. This unprecedented pledge in effect gave the domestic industry substantial bargaining power with respect to the Administration's selected course of action to restrict textile and apparel trade.

Pursuant to this agreement, the Administration announced its infamous December 16, 1983 decision. Specifically, a White House press release announced new criteria of market disruption which, if met, would be deemed to establish a "presumption" of market disruption under the MFA and serve as the basis for imposing quotas on uncontrolled categories of textiles. Under these new criteria, a presumption of market disruption would exist with respect to textile imports from a nation if the growth of imports in the category from that country exceeded 30 percent in a year or the ratio of imports to domestic production in the category or product was 20 percent or more and if imports from the individual supplier country in the category or product was equal to or greater than one percent of U.S. production of the product.

This policy change constituted a serious departure from the MFA. While Annex A of the MFA requires that a determination of market disruption "shall be based on the existence of serious damage to domestic producers or a threat thereof (emphasis added)," the Administration, under its December 16 decision, would now issue calls based on a mere "presumption" of market disruption. The new standard is inconsistent with the MFA's prohibition against making a finding of market disruption "on the basis of allegation, conjecture or mere possibility . . . ." Annex A.

The new "presumption" standard also resulted in an intensification of restrictions on textile and apparel imports pursuant to Article 3 of the MFA. Even before the 1981 Protocol of Extension was signed, the U.S. had embarked on a program of unilateral action under Article 3 of the MFA. In 1981, the U.S. established quotas in 18 separate instances on five exporting countries. This program intensified in 1982, when new quotas were established in 38 categories on products from eight exporting countries. Following the December 16 announcement, in the last two weeks of 1983, 33 more calls were issued -- with a total of

80 separate quotas established in 1983. The Administration's program also continued into 1984 when 112 calls establishing quotas were issued -- 70 in the first six months of 1984 alone.

The impact of this program of unilateral action increasingly affected small suppliers and new entrants. As more and more trade came under quota, U.S. actions were increasingly directed toward smaller volumes of uncontrolled trade. In this regard, the U.S. instituted quotas on imports from Egypt, Turkey, Uruguay, Peru, Spain, Yugoslavia, Barbados, Hungary, Mauritius, Haiti, Malaysia, and Romania. These actions are in total derogation of the MFA's policy of "favorable treatment" for these developing industries.

In short, the U.S. textile program has now reached the point where its actions are directed even against the world's poorest and least developed countries. On January 29 of this year, the United States issued a call to establish quota on cotton jackets from Bangladesh; on February 28, the United States followed its January call with a call on woven cotton shirts from Bangladesh.[12] In total contravention of the MFA, these actions threaten to suffocate a new industry which holds out some hope for economic stability in Bangladesh.[13]

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[12] It is virtually impossible for the U.S. to justify these restraints against Bangladesh under the market disruption standard in Annex A of the MFA. The imports of these Bangladesh products were relatively insignificant,

(footnote continued)

The proliferation of unilateral U.S. action establishing quotas since the 1981 MFA extension also evidences a total disregard for the MFA's fundamental principle that such severe restraints must be employed "sparingly," only when demonstrable market disruption exists. In this regard, the most intense period in U.S. government activity to restrict imports through unilateral calls--late 1983 and the first half of 1984--coincided with a strengthening of the economic performance of the textile and apparel industries as the consumer-led recovery from the 1982 recession increased demand for both imported and domestic products.

More specifically, the U.S. requests for consultation fail to meet the specific requirements of Annex A of the MFA for taking such actions. Annex A defines

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totalling, respectively, only 2.8% of all U.S. imports of woven cotton shirts and 1.4% of total U.S. imports of cotton jackets. Further, the U.S. producers of these products are healthy and are experiencing growth, not market disruption. For example, U.S. production of woven cotton shirts grew 10 percent in 1983 and another 8-10 percent in 1984.

[13] *See* "Bangladesh faces textile quotas," *Journal of Commerce*, at 3B (March 6, 1985) (indicating that Bangladesh "had developed textiles for export recently to ween itself from foreign aid.")

market disruption as "serious damage to domestic producers or actual threat thereof" and requires that market disruption be demonstrated on the basis of factual evidence relating to the economic condition of the competing domestic industry. In contrast, the Administration's actions were taken without the contemporaneous data necessary for valid market disruption determinations.[14] The Committee for the Implementation of Textile Agreements ("CITA"), an interagency group which issues the calls, did not examine the actual market circumstances or apply the specific criteria of market disruption set forth in MFA.

Finally, in accordance with its established policy, CITA also did not: (1) publish the basis for its market disruption determinations; and (2) give timely public notice of its actions. Thus, while CITA did, on occasion, offer interested parties an opportunity to comment, it only did so long after a request for consultations were made. And it did not provide the market data on which it based its market determination in timely fashion. Thus, CITA denied interested parties the very information necessary for them to make the types of meaningful and policy-relevant comments which CITA sought. It is virtually impossible for interested parties to criticize or point out flaws in CITA's market analyses and judgments when they do not know what judgments were made. By the time the market disruption determinations were made available, U.S. policy would have been set; a bilateral already would have been negotiated or a unilateral restraint imposed.

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[14] See Commerce Department Solicitation SA-RSB-82-0011 (December 28, 1981) (admitting that "there is a lack of sufficient and timely apparel production, sales, consumption and price data . . . necessary to identify market disruption resulting from imports and to determine and monitor trends in apparel markets.")

(e) The Country Of Origin Regulations

With the 1984 elections looming, the domestic industry again brought protectionist pressures to bear on the Administration. This pressure resulted in the President's May 9, 1984 Executive Order,[15] which directed that Treasury, in accordance with policy guidance provided by CITA, issue regulations governing the entry of textile and textile products subject to Section 204. The Order provided that the regulations shall include," among other things, "clarifications in, or revisions to the country of origin rules for textiles and textile products subject to Section 204 in order to avoid circumvention of multilateral and bilateral textile agreements . . . ."[16]

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[15] Exec. Order No. 12475 (May 9, 1984), 49 Fed. Reg. 19966 (1984).

[16] *Id*.

On August 3, 1984, the Customs Service implemented this Presidential directive and promulgated interim country-of-origin for textile and apparel products.[17] In particular, the regulations changed the definition of "substantial transformation" of products manufactured through multi-country processing so as to shift the origin of these products from countries where adequate quota was available to countries where adequate quota was not available.

The regulation, as drafted, was particularly directed at having articles which are processed in part in China and Hong Kong counted toward China's quotas. Not surprisingly, its net affect was to severely disrupt longstanding and legitimate business practices involving multi-country processing, including literally hundreds of millions of dollars of sweater production involving panels knit in China and assembled through looping into finished sweaters in Hong Kong. Fabric finishing operations in Europe using Chinese greige cloth were also disrupted.

In addition to establishing new and radically different country of origin rules, the interim regulations also required that "country of origin declarations" with detailed cost information accompanying all textile entries.

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[17] See 49 Fed. Reg. 31248 (1984).

While later rescinded, the declaration requirement would have forced manufacturers and/or exporters to disclose the most sensitive of proprietary business information to their customers and required that importers certify the accuracy of this information (with the possibility of being subjected to civil and criminal penalties should this information prove to be incorrect).[18]

These new regulations are also in complete derogation of the MFA and bilaterals, which require that "country of exportation" be considered as a factor in determining whether textiles are subject to the agreements and stipulate that merchandise must have been exported from the participating country to the U.S. in order to be subject to quota. See, e.g., MFA, Art. 3(2). In contrast, the new Regulations entirely dispense with "country of export" as a factor in determining quota and instead rely on radically new "country of origin" rules as the sole test. This violation is highlighted in the protests which the major textile trading nations lodged with the U.S. against the new Regulations. For example, the People's Republic of China has advised the United States that:

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[18] Compounding the difficulties created by the changed rules of origin and declaration cost requirements was the fact that the regulations established a totally unrealistic effective date of September 7, 1984 for their implementation. This allowed importers barely a month to conform to major changes in the requirements for entry of their products. Only the massive diplomatic and public protest which followed publication of the interim regulations induced the Administration to delay their implementation in a manner so as to reduce the rule's immediate harm.

> [t]he proposed new Customs regulations changing rules of origin for imports of textiles and textile products to the United States . . . would, if made effective, completely change the rules and the basis for quotas in existence and relied upon by the People's Republic of China at the time it entered into its bilateral agreement on textile products with the United States. As such, adoption of these proposals would constitute a clear violation of the bilateral agreement.[19]

The Regulations also violate the MFA and underlying bilaterals in other ways. In particular: (1) the Regulations constitute new non-tariff barriers to textile trade contrary to the prohibition on such barriers set forth in Article 3(7) of the MFA; (2) the Regulations constitute a scheme for the administration of quotas and restraint levels that frustrates Article 5's requirement that full utilization of quota be allowed; and (3) the Regulations impede the effective operation of the MFA, in violation of Article 8 thereof.

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19. See Letter of Aug. 15, 1984, from Zhang Wenjin, Ambassador of the People's Republic of China, to the Honorable William E. Brock, United States Trade Representative (Exhibit E).

The Regulations further violate the MFA and bilaterals in that they constitute action taken against practices that do not, in fact, constitute "circumvention" within the meaning of the MFA. Article 8, paragraphs 1-2 of the MFA describes "circumvention" of the MFA as "transshipment, re-routing, or action by non-participants." The assembly and finishing of wearing apparel in one country from parts produced in another country does not come within the meaning of "circumvention" of the MFA, nor does it constitute "frustration" of the MFA within the contemplation of Article 8, paragraph 3. Yet the new country of origin rules under the Regulations are targeted at such products; they serve to disrupt imports of such products by changing their country of origin (thereby nullifying the quota under which they have heretofore been allowed entry).

The Regulation also violates the MFA and bilaterals by unilaterally imposing new rules and documentation requirements ostensibly intended to prevent "circumvention" of those agreements. Under Article 8, paragraphs 1 and 2 of the MFA, the United States committed itself to "collaborate [with its trading partners] with a view to taking appropriate administrative action to avoid . . . circumvention" of the MFA. (Emphasis added.) The Regulations therefore violate the MFA by doing unilaterally what the MFA only permits to be done only on a multilateral basis.

In short, the Regulations are a unilateral measure taken by the United States which raise new and onerous barriers to textile trade and proscribe legitimate and long-established commercial activities. The new Regulations therefore violate Article 9 of the MFA, in that they constitute "additional trade measures" not authorized by any provision of the MFA which "have the effect of nullifying" the trade liberalization and expansion "objectives of the Arrangement." MFA Art. 1(2).

Finally, the new Regulations, like other U.S. regulatory actions taken against textile trade, were issued with virtually no due process whatsoever. There was no prior notice to the general public, no opportunity for comment and no factual statement setting forth anything more than a conclusion rationale for the new regulations. The Administration also refused to analyze the impact of the new rules on small entities--even though it recognized that the rules would have "a significant impact on those individuals and organizations involved in the importation of textiles and textile products."[20]

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[20] See Memorandum from Commissioner of Customs William Von Rabb to Assistant Secretary of Treasury John Walker (July
(footnote continued)

(f) The U.S. and the Textile Surveillance Body

The U.S. has also totally ignored the findings of the Textile Surveillance Body ("TSB"), an international body established to administer the MFA. See MFA, Art. 11. Although a number of the U.S. actions described above were referred to the TSB pursuant to the MFA's dispute resolution mechanism and were deemed in violation of the MFA, the U.S. has nevertheless failed to rescind most of these actions.

First, a number of requests for consultation by the U.S. notified to the TSB were deemed to have disregarded the definition of "market disruption" in Annex A to the MFA.[21] Second, the TSB determined that the U.S. had taken

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11, 1984). In promulgating the new Regulations, the Treasury expressly exempted itself from the provisions of the Regulatory Flexibility Act which required such an analysis. See 5 U.S.C. §§ 603, 604.

[21] See Report Of the Textiles Surveillance Body To The Textiles Committee For The Major Review Of The Arrangement Regarding International Trade In Textiles 1984 ("TSB Study"), GATT Publication, at 67-69 (Oct. 1, 1984).
For example, with respect to imports of man-made fiber luggage from Korea, the TSB determined that the United States "in requesting consultations had not fully complied with the requirements of Article 3:3 [of the MFA] as regards the provision of the reasons and justification for the request, including the latest data concerning elements of market disruption." The TSB also noted that these products might not be subject to the MFA, which only authorizes restrictions on products whose chief value (or 50 percent or more by weight) constitutes cotton, wool, man-made fibers or blends thereof. The TSB therefore recommended that the U.S. and Korea hold consultations in order to determine which, if
(footnote continued)

actions under Article 3 without regard for the status of the exporting nations involved as "developing nations" and the special protections afforded such nations by the MFA.[22] Finally, the new country-of-origin rules were squarely rejected as inconsistent with MFA principles.[23]

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any, of the products at issue were subject to restriction under the MFA.

Similarly, the TSB found that the unilateral restraints which the U.S. set on imports of playsuits from Hong Kong were not justified under the MFA's market disruption standard, noting that "the information provided [the TSB by the U.S.] did not warrant the conclusion that the amount of export authorizations issued by Hong Kong . . . posed a real risk of market disruption to United States producers." The TSB therefore "recommended that the United States rescind" the restraint. TSB Study, supra, at 70.

The TSB also reached similar conclusions with respect to U.S. restraints imposed on, inter alia, cotton casts and wool sweaters from India, cotton coats, robes and dressing gowns from Pakistan, and man-made fiber suits for infants and woven from the Dominican Republic. TSB Study, supra, at 66, 70-72.

[22] For example, with respect to the Article 3 action by the U.S. against mens' and boys' cotton knit shirts imported from Turkey, the TSB found that "the U.S." had not taken sufficient account of Turkey's position as a cotton supplier, a developing country, a new entrant in the United States market and its interests as an exporting country in terms of [the market disruption standard] of Annex A." TSB Study, supra, at 69.

[23] See 1 International Trade Reporter (BNA) 754 (Dec. 19, 1984) (TSB decision ruling against new U.S. restraints imposed on Hong Kong sweaters under interim country-of-origin regulations; 1 International Trade Reporter 256 (Sept. 12, 1984) (noting that the Textile Committee of the GATT condemned the new Regulations and called upon the U.S. to withdraw or at least postpone them).

While the U.S. has consulted with other affected signatory nations at the TSB's request, it has not made any attempt whatsoever to rectify these egregious violations of the MFA.

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In sum, the policy setting for MFA renewal is one of failed expectations. While the MFA was designed to gradually facilitate the economic adjustment toward a GATT-based trading system through its policies of trade expansion and removal of trade restrictions, these laudatory goals have not been met in practice. Through its extension, interpretation and administration, the MFA has instead evolved into a permanent system of expanded protection for the textile and apparel industries of developed nations. Thus, far from achieving its objectives, the MFA, as administered, has overrestricted textile and apparel trade, impeded orderly growth of textile trade and economic development, and prevented the process of economic adjustment toward an open international market for textile and apparel products.

III. POLICY CONSIDERATIONS RELEVANT TO MFA RENEWAL

Within this policy setting, there are a number of important considerations which the U.S. and its trading partners should take into account in formulating their positions with respect to renewal of the MFA.

--The U.S. refusal to adhere to the MFA's rules jeopardizes the continued integrity of this system of managed trade and undermines the reliability and credibility of the U.S. as a trading partner. As administered by the U.S., the MFA has become little more than a vehicle by which to legitimate any unilateral protectionist actions taken by importing nations--in short, the very types of unilateral trade restrictions the MFA is designed to prevent.

As documented above, the U.S. has repeatedly and flagrantly disregarded the MFA's rules, including its definition of market disruption. Thus, ironically enough, at a time when the U.S has itself accused the Soviet Union of violating nuclear arms agreements and is in the midst of negotiating important international agreements in a host of areas (*e.g.*, on telecommunications trade with Japan and steel trade with numerous nations), the U.S. has itself engaged in one of the most striking patterns of disregard for an executed international agreement in recent memory. Such conduct violates the rule of *pacta sunt servanda*, an elementary principle of international law under which nations must honor the international agreements they enter into.[24]

Such U.S. disrespect for its binding international obligations has two distinct and very serious consequences. First, it entirely undermines the structure of managed trade established in the MFA. As noted above, that agreement is the end-product of a gradual evolution away from severe bilateral restrictions on textile trade. If such violations continue, they threaten to totally unravel this evolution and leave the MFA as a vehicle by which nations can legitimize any protectionist barrier whatsoever. In this regard, other importing nations can follow the lead of the U.S. and make requests for consultation not justified under Article 3's market disruption standard. Even through proper findings of market disruption have not been made, textile exporting nations are nevertheless placed in the unfair dilemma of choosing between negotiated restraints and more severe unilateral restraints. In short, the U.S. actions have begun a destabilizing process in textile and apparel trade which, if continued, will result in other violations by other importing nations (which are now accepting imports improperly barred from the U.S. by quotas) and invite further and even more severe retaliatory actions against the U.S. Thus, the MFA system's very integrity is in jeopardy.

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[24] See Restatement Of The Law (Revised) Foreign Relations Law Of The United States, § 324 (Tent. Dr. No. 2 1983).

By its actions, the U.S. also has seriously jeopardized its credibility as a trading partner. Thus, in its international negotiations on MFA renewal and other matters, the U.S. now must face the prospect that other nations will be less likely to compromise and enter into agreements because of the substantial risk that the U.S. will not abide by whatever agreements are consummated. This is particularly true in the trade arena, where U.S. non-compliance with any future system of managed trade would severely disrupt the economic planning, growth and export earnings of U.S. trading partners.

--The MFA, through its extension, interpretation and administration, has become a permanent system of expanded restrictions on textile and apparel trade which radically departs from the MFA's trade liberalization and expansion goals.

As noted above, the MFA was established as an interim alternative to more restrictive national trade barriers which would ease the adjustment to GATT rules, not as a substitute form of permanent protection. Yet, by virtue of its renewal in a manner which allow departures from its rules and by way of its administration by the U.S., the MFA has, in effect, become an expanded form of permanent protection which impedes the transition to a liberal trading system.

Continued renewal of the MFA by Protocol, in and of itself, belies the temporary nature of the agreement and undermines its basic trade liberalization objectives. Further, by their terms, the Protocols of Extension have allowed "reasonable departures" and "goodwill" gestures which exacerbate the restrictions on textile trade and give importing nations license to depart from the MFA's trade expansion rules. Through the use of these vague phrases, the requirement of six percent growth for textile trade regulated pursuant to Article 4, intended as a floor, has, in effect, become a ceiling inhibiting any further trade expansion. Moreover, the flexibilities authorized by the MFA to ensure full use of quota rights have been sharply limited in practice by the U.S. Thus, new bilaterals negotiated by the U.S. are really not more liberal than unilateral restrictions under Article 3, as the MFA requires. Indeed, the U.S. use of bilaterals to negotiate umbrella quotas on all textile imports from an exporting nation has imposed a new level of restrictions not even permitted under Article 3. Such non-category specific quotas are imposed on any and all textile imports from a particular nation without regard to whether "market disruption," in fact, exists under Annex A with respect to such products. Since such economically unjustified quotas cannot be imposed under Article 3, it is hard to see why the U.S. should be allowed to negotiate them under as part of supposedly more liberal bilateral agreements sanctioned by Article 4.

Finally, the U.S.'s improper over-reliance on the market disruption mechanism has also undermined the MFA's trade liberalization goals. Intended to be used "sparingly," the U.S. and its trading partners have, in fact, based their textile policies on unilateral quotas imposed under Article III. The establishment of an entire system of these restraints has disrupted orderly trading patterns, created market instability and uncertainty for exporters and importers and impeded trade liberalization and expansion.

--**While the U.S. textile and apparel industries are healthy and internationally competitive, these industries have nevertheless sought to use their regionally concentrated political power in an unwarranted effort to obtain additional and unnecessary protection**.

The domestic industries' attempt to depict a bleak economic scenario is belied by the relative health of the textile and apparel production sectors of the U.S. In this regard, the domestic textile and apparel industries have experienced a decade of stability. The overall U.S. fiber consumption rose from 10.8 billion pounds in 1974 to an estimated 13.0 billion pounds in 1984, a gain of 2.2 billion pounds. And, as recognized by Ambassador Richard Imus, the chief U.S. textile negotiator,[25] the textile and apparel industries shared in the U.S. economic recovery during the 1983-4 period. Indeed, by any measure, 1983 was an exceptionally good year for the domestic textile and apparel industries. From a low in 1982, U.S. textile fiber production rose by 1.7 billion pounds, or more than 18 percent in 1983, the single largest year-to-year gain ever recorded.

The strength of the domestic industry's performance is apparent from the steady rise in production capacity utilization at all levels. During 1983, the domestic textile and apparel industries enjoyed higher employment levels and substantially improved profitability. Textile and apparel markets benefitted from rising consumer purchasing power, inventory building, modernization efforts aimed at increasing productivity, strong demand for home furnishing fabrics and increased auto sales.

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[25] _See_ Testimony of Richard Imus, Subcommittee on Consumer, Commerce and Monetary Affairs of the House Committee on Government Operations, 99th Cong., 1st Sen. (March 6, 1985).

To the extent that the domestic industry has had any difficulties in recent months, they are not attributable to imports but to factors extraneous to the textile and apparel sectors, including the strength of the dollar, a general weakening in consumer demand in the last quarter of 1984 and the U.S. textile program itself.

The strong U.S. dollar is particularly troublesome to the textile and apparel industries. On the one hand, U.S. textile exports, which have been competitive in international markets,[26] are now priced beyond competitive levels in foreign markets. On the other hand, the overvalued dollar has made foreign imports more competitive in the U.S. domestic markets.

Cyclical changes in the economy have also been felt in the textile and apparel industries--as they have in all others. After a period of rapid recovery in the economy, consumer demand gradually slowed, following the typical pattern for the second phase of recovery from recession. Against a backdrop of expectations inflated by the growth in consumer demand during the first phase of the recovery, consumer consumption expenditures rose only 7 percent in the third quarter (in contrast to gains of 4.6 percent and 7.9 percent respectively in the first and second quarters of 1984.) This demand decline also affected imported textiles; imports for the first two months of 1985 were 5.7 percent below imports during the same period of 1984.

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[26] Before the value of the dollar increased, U.S. textile and apparel industries' were clearly competitive. Between 1975 and 1980, exports of U.S. textile products grew from $1.5 billion to $3.4 billion. Further, during 1974-1981, the U.S. had a positive trade balance in its textile sector, exporting more than it imported during all years except 1978. (Source: U.S. Department of Commerce, FT-135, FT-140, SITC Classifications 65 & 84).

Finally, ironically enough, protectionism itself has proven detrimental to the domestic industry. The U.S. policy of unilateral action under the MFA, accelerated by the December 16, 1983 adoption of a "presumption" of market disruption, sent shock waves through the importing and retailing communities. Importers and retailers reacted by accelerating their overseas purchase decisions and deliveries to avoid potential embargoes growing out of additional calls. Thus, actions meant to slow down imports had the opposite effect in early 1984 and, along with the strength of the dollar, contributed to the growth of imports throughout the year.

Notwithstanding the fact that further sectoral protection will not solve the macroeconomic problems confronting the domestic industries, the industries have nevertheless exerted their influence, working in concert with their Congressional champions in a bold attempt to obtain such relief. Since the textile industry is principally situated in the South,[27] it has concentrated political resources in this region which it can bring to bear on national politicians. This concentrated political clout is in sharp contrast to the more dispersed political base of the retail community and American consumers. As a consequence of these political dynamics, the industries' pleas for protection may be heeded even where, as here, such protection is a solution in search of a problem.

--The MFA, as administered, has distorted the process of economic development and interfered with longstanding trading patterns.

U.S. has substantially impeded the economic development objectives of the MFA through its actions against imports from developing nations. Taken together, such actions amount to a U.S. policy of singling out small suppliers whose imports constitute a minor share of total imports in a particular category. While the domestic industry can hardly be disrupted by such small numbers of imports, the U.S. has nevertheless imposed restrictions on them. With a substantial amount of U.S. imports from developing nations now subject to such unilateral and bilateral restrictions, this protection is now having an appreciable impact on economic development.[28] Indeed, such restrictions, set at low levels, can effectively preclude the development of an apparel or textile industry in a developing country.

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[27] By 1980, over one half of the textile mills' labor force of almost 900,000 was concentrated in three southern states -- North Carolina, South Carolina and Georgia. GAO Report, supra, at 2.

Protectionism also has distorted the direction of economic growth, causing the allocation of scarce industrial resources toward the production of unregulated products which are not necessarily what consumer preferences demand. Further distortions and disruption resulted from the imposition of the new country-of-origin rules, which forced changes in longstanding trade patterns in the multi-country processing of textiles. In effect, the quota system itself has become a vehicle for the artifical shifting of economic development processes from one nation to another.

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[28] See Fishlow, Carriere and Sekiguchi, Trade In Manufactured Products With Developing Countries: Reinforcing North-South Partnership, The Trilateral Commission, at 53-55 (1981).

--The needless protection of the U.S. import restraint program imposes tremendous costs on importers, retailers, consumers and the overall U.S. economy which are not offset by the minimal employment gains which result from such import relief.

The costs of the protection afforded the U.S. textile and apparel industries through the import relief program fall heavily on U.S. consumers. These trade restrictions lower the available supply of textile and apparel products, raise prices of such products to consumers and lessen the variety needed to meet different consumer tastes.

These costs have been quantified and well documented. In this regard, a 1978 study by the Council on Wage and Price Stability ("COWPS") found that quotas on imports to the U.S. from producing nations cost consumers $369.4 million a year. Two World Bank analysts put the COWPS figures in perspective:

> Since multi-fiber textile quotas in the United States are, in 1980, eight years old and restrictions on cotton textiles are twenty four years old (eighteen years for those against developing countries), the [COWPS] study implies that the cost to consumers by now would probably be about 10 percent of the value of apparel consumed.[29]

A more recent study by Michael Munger of the Center for the Study of American Business at Washington University in St.

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[29] Keesing and Wolf at 108.

Louis estimates that the quotas on textile and apparel cost consumers about $3.416 billion a year (in 1980 dollars).[30] It is safe to assume that these figures, based on 1980 and 1982 data, will continue to increase in light of the rash of bilateral agreements and unilateral restraints imposed by the U.S. since then.

Importers and retailers also suffer tremendous costs and risks on a daily basis by virtue of the MFA system. To ensure that their needs for various overseas products can be met, importers and retailers must have a working knowledge of the MFA system and the quotas established thereunder. Obtaining the licenses necessary to export under the quotas also imposes costs on retailers; in Hong Kong, for example, such quota rights are freely traded--the lower quota the higher the price. Also, with the recent increase in U.S. controls on textile and apparel imports, importers and retailers also have had less flexibility to source merchandise from the widest possible market to meet ever shifting consumer tastes.

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[30] A recent FTC study, which analyzed the economic impact of maintaining quotas on nine categories of merchandise from Hong Kong, reached similar conclusions. See Marke, IMPORT QUOTAS ON TEXTILES: The Welfare Effects of United States Restrictions on Hong Kong, (Federal Trade Commission Aug. 1984) (hereinafter referred to as the "FTC Study"). Specifically, the study found that across all nine restricted categories, the total "quota rent" for U.S. consumers (i.e., the excess of the import price with quota over the non-quota price) is approximately $200 million. Id.

Finally, in light of the U.S. program of unilateral actions, importers and retailers also face the serious risk that unforeseen embargoes will interfere with overseas purchases which are not subject to restrictions when made. Importers and retailers have consequently had to take such risks and costs into account in structuring their overseas transactions, making their business operations ever more complex and expensive.

The U.S. system of textile trade restrictions also causes substantial costs for the other sectors of the U.S. economy. First, quotas disrupt the business of related industries, such as the shipping, rail freight, and packaging, which are, in part, dependent on imports for their revenue. Second, quotas and resulting foreign retaliation against them have seriously injured export-dependent industries like agriculture. In this regard, developing nations cannot afford to purchase U.S. farm exports without the revenue they generate from the sale of their own exports, including textiles. Further, retaliation by the Chinese, in the form of a boycott of the U.S. wheat market, has substantially injured the wheat industry in terms of lost trade, jobs and farm income. In short, trade is not a one-way street; U.S. restrictions on textile imports easily translate into a loss of market access for other U.S. products outside of the textiles and apparel sector.[31]

Third, the continued protection of textile and apparel industries prevents the market from efficiently allocating resources between textile and apparel and other potentially more efficient sectors like services and high technology. The high prices of textile and apparel merchandise subject to quota sends distorted price signals, creating artificial incentives for investors allocate resources to the textile sector which otherwise might be allocated elsewhere. In this way, the quota system prevents the economic growth and expansion which normally result from the efficient allocation of resources by the market.[32]

Indeed, it may very well be more efficient, and produce more economic growth, for the U.S., as a nation, to invest more in its emerging industries, where: (1) the U.S.

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31. See Prepared Statement of Carl Schwensen, Hearing, supra, at 142-143.

32. See Corzan de la Torre, Donges, MacBean, Waelbroeck & Wolf, MFA Foreover? Future of the Arrangement for Trade in Textiles, Trade Policy Research Centre (1981) at 16-18 ("Growth demands constant adjustment in order that resources might be employed as efficiently as possible. Defensive protection is a means of avoiding the adjustments required. If this process is generalized widely enough, and continues long enough, growth itself will be halted.)

may have a comparative advantage over other nations due to its technological prowess; (2) the potential for both earnings and exports may be greater; and (3) more and higher salaried jobs may be available.

Such costs of MFA import restrictions for the U.S. economy are not offset by the small number of low salaried textile and apparel jobs saved by the textile relief program. In this regard, the evidence shows that the costs of saving these jobs are astronomical. According to a recent Federal Trade Commission study, quotas on nine apparel categories from Hong Kong saved approximately 8,891 U.S. textile and apparel jobs at a cost of $34,500 per job a year.[33] The jobs which were protected paid, on average, slightly less than $10,000. Thus, by saving such lower paying jobs and preventing employees from shifting to higher salaried jobs in more profitable sectors, protectionism actually yields employment costs and inefficiencies rather then benefits.

--In formulating its textile trade policy and administering the MFA, the U.S. has refused to afford due process to retailers and other affected parties.

One of the major reasons that the U.S. has repeatedly violated the MFA and imposed textile trade restrictions detrimental to retailers, consumers and the

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[33] See FTC Study, supra, at 27.

U.S. economy is its failure to provide the due process of law to the parties affected by these decisions.

The U.S. administration of the textile program stands in sharp contrast to its administration of the other exceptions to the GATT rules. In its implementation of the GATT safeguards, the U.S. government has established elaborate procedures, including, inter alia: (1) notice and an opportunity for comment; (2) on the record hearings; and (3) in certain circumstances, judicial review of whether the actions taken are arbitrary, capricious, an abuse of discretion, or not in accordance with law.

In contrast, as recently established by the courts,[34] there are virtually no limitations on the discretion of the Executive Branch to impose restrictions on textile and apparel products under domestic law and virtually no procedural protections for parties affected by such U.S. actions. Thus, ironically enough, while the U.S. cannot impose the lesser sanctions authorized under other trade remedy laws unless such sanctions are truly justified and all affected parties' views are considered, it can nevertheless impose the severe trade sanctions allowed under the MFA (e.g., embargoes) on an ad hoc basis without any process whatsoever. The absence of such safeguards lends itself to substantial errors by CITA and gives the Executive Branch unfettered discretion to control textiles imports with no check whatsoever from other branches of government.

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[34] American Association of Exporters and Importers - Textile and Apparel Group v. United States, Slip Op. No. 84-1060 (Fed. Cir. Jan. 4, 1985). Mast Industries, Inc. v. United States, Slip Op. No. 84-111 (Ct. Int'l Trade Oct. 4, 1984).

The same lack of due process has also traditionally plagued the formulation of U.S. policy on textile trade, including the process for the formulation of the U.S. position on MFA renewal. In this regard, NRMA applauds U.S.T.R. for soliciting comments on MFA renewal from interested parties, and for allowing, for the first time, representatives of retailing to accompany U.S. officials when they travel to Geneva to negotiate the renewal of the MFA and to other locations to negotiate bilateral quota agreements. The previous exclusionary policy has given the domestic textile and apparel industries unprecedented input into such negotiations while other affected industries, namely importers, retailers, and consumers, played no role whatsoever in the negotiations and have little opportunity to comment on the decisions being reached therein as they occur.

IV. THE POLICY CHOICES

The U.S. has four basic policy choices with respect to the renewal of the MFA and the administration of the U.S. textile program. The benefits, costs and risks of these choices must be evaluated in light of the policy goals and considerations set forth above.

A. Choice 1: The Maintenance Of The MFA Status Quo

At the outset, one choice can be readily dismissed: the maintenance of the MFA as now administered. As demonstrated above, the existing MFA system, as administered, radically departs from its stated objectives and has become little more then a means of legitimizing the very types of unilaterally-imposed textile trade restrictions it was meant to prohibit. Left in its current form, the MFA system will disintegrate back into the chaos and disorder of national protectionism and will not serve as a means of facilitating a gradual adjustment to GATT trading rules.

The costs of maintaining this counterproductive system are tremendous. They include continued burdens for importers, retailers, consumers, and the economy, needless protection for a competitive domestic industry and the imposition of opportunity costs stemming from the inability of the market to allocate U.S. productive and employment resources toward their most efficient uses. The system, as administered, has also internationally impeded the development of nascent textile industries and distorted patterns of textile trade.

While maintaining the *status quo* may produce some short-lived employment benefits to the U.S. textile and apparel industries, these benefits could be realized at a lower cost through alternative programs. *See* discussion on pp. 69-70, *infra*. And in all events, maintaining workers in low paying jobs at high costs benefits neither the workers involved nor the economy as a whole.

For all of these reasons, NRMA opposes the renewal of the MFA as it is now administered.[35]

B. Choice 2: The Immediate Application Of GATT Rules To Textile And Apparel Trade

The second basic policy choice is to scrap the existing MFA system and apply the GATT trading rules noted above to textile and apparel trade.

For the long-term, NRMA endorses this choice. The GATT rules are plainly preferable to the perpetual restriction of trade under the MFA. The benefits of textile trade under GATT are significant; they include the realization of gains from trade through the principles of comparative advantage, the efficient allocation of U.S. employment and productive resources, and the enhancement of consumer welfare. And, since many of the companies in the U.S. textile and apparel industries are internationally competitive, they too will prosper under the rules of open trade as the dollar gradually moves toward its true (and lower) value.

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[35] Ironically enough, the domestic industries also oppose the maintenance of the MFA *status quo*, but because they demand even greater protection. Their proposals for increased protectionist measures are set forth on pp. 56-62, *infra*.

Unfortunately, in the short-term, this choice is illusory. Given the political clout of the domestic industries, the expiration of the MFA would simply result in U.S. legislation which itself established even more restrictive quotas and other non-quantitative restrictions on textile trade than now exists under the MFA. Thus, the MFA would not be replaced by the GATT, but by the chaos and disruption of onerous national trade barriers. In this sense, an immediate shift to GATT rules is not a real choice.

Further, there is a substantial risk that an abrupt shift from the restrictions of the MFA to no restrictions at all would impose high transition costs on the domestic industries, including economic dislocations, employment losses and other difficulties. In this regard, industries which have already undertaken extensive business planning and made investment decisions based on the assumption of continued protection would now face an entirely new and unprotected environment wherein their planning and investments might not make sense.[36] While NRMA seeks the adoption of the GATT system of liberal trading rules as rapidly as possible, the retail community does not seek to harm these industries or the U.S. economy. Thus, NRMA and its members reluctantly reject the immediate shift to GATT rules.

C. Choice 3: A Return To Unilateral Protection

The domestic industries has proposed a series of policy actions which together constitute the third policy alternative before the U.S. In essence, the industries seek to expand the current MFA system and impose an additional layer of unilateral and even more restrictive controls on textile imports not restricted under the MFA. For the reasons set forth below, this choice is inconsistent with the rules of GATT and the MFA, and provides the U.S. with minimal benefits at substantial costs. NRMA therefore opposes this choice.

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[36] See Wallis Speech, supra, at 42. (Because of years of protection under the U.S. textile program, "we would now have a serious problem on our hands if we were to remove protection except over a prolonged period . . . .")

1. The Expansion Of The MFA To New Fibers

Unsatisfied with the coverage of the MFA, the domestic industry seeks to expand it to now unregulated products, including silk, linen and ramie.[37]

This option has no substantive benefits for either the domestic industries or the U.S. economy. As the domestic industries do not now manufacture these fibers, it can hardly claim that it needs protection against their imports. Thus, the industry is hardpressed to show how, if at all, it is being injured by these imports and why it should be protected. There are no U.S. companies, factories or jobs to protect from extinction.

This proposal could only result in tremendous costs for the U.S. economy. First, it might very well cause U.S. resources to be misallocated toward the production of these fibers. Second, it would increase the costs of these products to consumers and reduce the available supply.

In short, it would be irrational to impose these high costs on the economy in exchange for no gains whatsoever. Expansion of the MFA would also continue the traditional pattern of creeping protectionism, which prevents the gradual achievement of the trade liberalization goals embodied in the MFA.

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[37] *See* Testimony of Ernest D. Marcini, Chairman of the American Apparel Manufacturers Association, before the International Trade Subcommittee of the House Committee on Ways and Means, 99th Cong., 1st Sess. (April 3, 1985).

2. Quota Rollbacks

In the recently introduced Textile and Apparel Trade Enforcement Act of 1985, S. 680, 99th Cong., 1st Sess. (March 19, 1985), the domestic industry's supporters have proposed "rollbacks" of quotas which apply to textile and apparel imports from "major exporting countries." The bill defines such countries to include any nation, other than Mexico or a Caribbean Basin nation, whose imports account for 1.25 percent or more of all textile and textile products into the U.S. The bill then defines the base period and growth rates of imports from such "major" exporting nations so as to ensure as low a quota as possible.

The terms of the bill are in total derogation of the MFA's requirements for establishing quota base periods and the annual growth of imports subject to quota. They fly in the face of the MFA's trade liberalization goals and add another level of unnecessary unilateral restrictions onto those in the MFA. The bill also discriminates against newly developing industries accorded favorable treatment under the MFA. Under this intricate proposal, countries with as little as one quarter of one percent of the U.S. market will be subject to potentially severe rollbacks. These countries will only be allowed one percent growth per year on a base significantly reduced from their 1984 trade levels. In contrast, such nations' textile industries are supposed to be guaranteed the right to exist and develop under the MFA.

In short, if the U.S. seeks to achieve the objectives of the MFA, this proposal is counterproductive. On the other hand, if the U.S. seeks more needless protectionism at tremendous costs to the U.S. economy, only then should it entertain such a proposal.

3. Global Quotas

If enacted, S. 680 would also establish a system of highly restrictive global quotas on a category-by-category basis. This set of unilaterally-imposed global restraints would not replace the country-specific quotas imposed pursuant to determinations of market disruption under the MFA, but would be yet another layer of restrictions unilaterally superimposed on top of the MFA system.

Like the rollback scheme, this proposal for an additional set of global quotas would also violate the MFA's prohibition against unilateral quantitative restraints and run counter to its trade liberalization and expansion goals. As a vehicle for expanded protectionism, global quotas are unnecessary, expensive for importers, retailers, consumers and the U.S. economy, and create risks of a trade war in textiles and retaliation against U.S. exports.

4. Import Licensing

Finally, S. 680 contains a proposal for import licensing under which an importer of any textile and apparel products from any country would be required to present an import permit as a condition of entry. See S. 680, § 6. Importers would be required to pay a fee for the license, with the fees set at a price which ensures that the administrative costs of the system can be covered.

As a vehicle to stop fraud and abuse of the quota system, such a system is clearly unnecessary. The resources used for a licensing system to would similarly exceed the potential value of any fraud by several orders of magnitude.

Importing licensing would also be a very costly system, with the costs directly borne by retailers, importers and consumers--the very segments of the economy which already bear the economic burdens imposed by the MFA. And, as an administrative matter, such a system would be a nightmare. Walter Lenahan, the Commerce Department's Deputy Assistant Secretary for Textiles and Apparel, has stated that import entries of textiles and apparel amount of 250,000 per month, or 3,000,000 per year--half of all import entries of all products.[38] Requiring import licenses for the many products involved in each of these entries would cost many millions of dollars and require literally hundreds of employees.

Finally, import licensing is also inequitable to and discriminates against small retailers and importers where, as can be anticipated, the licenses are used to police quotas (and become the equivalent of the right to import under quotas). No matter how licenses (or quota rights) are allocated, there is no fair way to protect the small retailers and importers, who lack funds to purchase these rights. If licenses are allocated in an auction, the more "deep-pocketed" bidders will purchase many or all licenses at high prices -- to the detriment of the smaller members of the retail community. Similarly, if licenses are allocated on the basis of historical performance, the small retailers and importers will find their ability to increase imports severely limited and new entrants will be discriminated against.

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[38] Testimony of Walter Lenahan, Deputy Assistant Secretary of Commerce, before the Subcommittee on Commerce, Consumer and Monetary Affairs of the House Committee on Operations, 99th Cong., 1st Sess. (March 6, 1985).

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In short, through their intricate proposals, the domestic industries seek to propose another level of protection on industries which are already world-competitive. By doing so, they would further restrict textile imports withough the prior determination of market disruption as required by the MFA, severely impede the trade liberalization and expansion goals of the MFA, distort economic development and existing trade patterns, and create artificial incentives for additional investments in the U.S. textile and apparel industries. As such, these proposals deter, rather then accelerate, the movement toward the application of GATT trading rules to textiles and apparel.

Since the basic economic problems now confronting the textile and apparel industries are attributable to non-sectoral factors rather than foreign imports, further sectoral relief for the textile and apparel industries is both unnecessary and unwise. These systemic problems can only be combatted through macroeconomic policy measures, including the reduction of the deficit and the lowering of interest rates, which will lower the value of the dollar and allow economic growth on a more stable basis. Such actions would also help stimulate foreign markets and create a stronger world economy which will allow greater access for

U.S. exports. Only such macroeconomic policy measures will restore a competitive balance between imports and domestic production.

In sum, if the U.S. seeks to abandon its longstanding goals in textile and apparel trade, as reflected in the original MFA, and move toward the very types of needless and unilateral restrictions on imports the MFA sought to deter, it should heartily endorse this proposal. On the other hand, if, as appears to be the case, the U.S. seeks to continue its textile policies of trade liberalization and expansion, it should recognize these naked protectionist measures for what they are and repudiate them.

D. Choice 4: Returning The MFA To Its Trade Liberalization And Expansion Goals

Finally, there is one last choice: to renew the MFA in a way which ensures that it serves its fundamental purposes and paves the way for the near-term adoption of the GATT rules. If the U.S. seeks to adhere to its longstanding goal of expanding trade through the removal of restrictions, this is plainly the choice it should select and the position it should assert in the forthcoming MFA renewal negotiations.

1. A Mechanism For MFA Phase-Out On A Date Certain

As the MFA was intended as a temporary measure which would ease the adjustment to a free trading rules, it is imperative that the agreement only be renewed on the express condition that it be phased out and terminated on a date certain. This will avoid the spectre of permanent protectionism and the tensions that such a long-term system of trade restrictions imposes on the trading system as developing nations enter the international market.

Thus, the MFA should contain a provision which calls for its termination in 1991. This period of time gives the domestic industries ample time to make necessary adjustments to competition in the free market. However, an expiration date alone is not sufficient to ensure the MFA's phase-out. In this regard, while the MFA I and II also had provisions or their termination, the agreement did not, in fact, terminate. Thus, termination on a date certain must be accompanied by provisions which ensure the gradual phase-out of the MFA during its terms. Such provisions would ensure that when the MFA does expire, policy-makers are not again presented with the all-or-nothing choice of the past (*i.e.*, between highly restricted trade and trade subject to GATT rules). The adoption of a mechanism for gradual phase-out of quota would allow the system itself to move toward liberal trading rules in incremental steps which ease the adjustments for domestic industries and avoid undue disruptions of domestic markets caused by rapid increases in imports. Thus, when the MFA again expires, policy-makers will more easily be able to eschew its renewal and apply the GATT rules to textile trade. This choice would only mean an incremental charge toward further liberalization rather then a radical change which would risk disruption of long protected industries.

There are any number of mechanisms which would ensure the phase-out of the MFA. One such measure would simply require adherence to the MFA's requirements for 6% annual growth of imports subject to quota and for flexibilities. By the end of the next term of the MFA, trade in many regulated categories would be virtually unrestricted under this proposal. Similarly, the permissible growth in imports subject to quota could be increased in later years of the MFA. Third, the MFA should prohibit the negotiation of umbrella quotas on all imports from a country under Article 4 bilaterals; as noted above, such quotas have no economic justification under the "market disruption" standard and only serve to add another level of needless restrictions on top of category-specific quotas.

Fourth, a system could be devised so that the MFA's coverage is gradually narrowed and categories of products not now sensitive to imports could be deleted from its scope. Fifth, since much of the abuse of the MFA has been caused by the refusal of the U.S. to take unilateral actions under Article 3 "sparingly," a mechanism could be established which gradually limits the number of requests for consultation which importing nations are allowed to make.[39] Indeed, in the later years of a renewed MFA, importing nations could perhaps be barred from taking any actions under Article 3 unless they are expressly approved, in advance, by an international body like the TSB. Imposing this type of international discipline on the inherently discretionary call mechanism discipline would significantly aid in facilitating a gradual adjustment to less restrictive trading rules. Finally, the U.S. (and other exporting countries) could adopt the U.S. textile industry's "809" proposal, allowing tariff-free entry of goods to the extent that they are made from American fabric.

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[39] By way of example, one approach would be to bar requests for consultation by importing nations on categories of merchandise where the domestic producers have 50% or more of the domestic market for that category.

2. Mechanisms For Adherence To MFA Rules

As demonstrated above, the MFA has in large part failed to achieve its goals of trade liberalization and expansion because importing nations like the U.S. have violated the MFA rules established to achieve these purposes. Thus, a simple and necessary solution is to establish mechanisms which ensure that the MFA signatories abide by the agreement's rules.

While such mechanisms could take various forms, one simple approach would require all signatories to pledge to abide by the MFA. As the Reagan administration has taken its publicly stated pledges seriously, there is a reasonable likelihood that the U.S. would fulfill whatever pledge it gives. Another approach would be to invest the TSB with supranational enforcement authority and allow it to take or authorize sanctions against nations which violate the agreement. Yet another approach would be to adopt a new MFA provision which requires signatory nations to codify the MFA's rules as part of their national laws or regulations and to enforce these rules like any other domestic laws and regulations. Making the MFA part of domestic law -- as the U.S. has done with other international trade agreements, such as the escape clause of GATT and the Dumping and Countervailing Duty Codes -- would create additional incentives for national governments to adhere to it. Indeed, in the U.S., it would be illegal for an Executive Branch agency like CITA to violate such MFA provisions if they were contained in the agency's own regulations.[40]

Another mechanism to ensure adherence to MFA rules is the avoidance of Protocols of Extension which, through vague phases like "reasonable departures" and "good will," appear to legitimize violations of the agreement. Any new Protocol should thus be free of such vexing statements which have been treated as licenses to ignore the MFA's basic objectives.

The willingness of the U.S. to promote and agree to such mechanisms would also substantially mitigate the international relations damage caused the recent U.S. actions in textiles and improve the image of the U.S. as a partner in managed trading regimes. Such a showing of good faith would also prevent the sorry record of U.S. administration under the MFA from having adverse spillover effects on other international trade negotiations.

3. Promoting The MFA's Economic Development Goals

As demonstrated above, one of the most unfortunate effects of the MFA system, as administered, has been the resulting distortions of economic development and trading patterns. While the MFA was intended to favor the development of nascent textile and apparel industries in poorer nations, it has, in fact, impeded it.

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[40] See Accardi v. Shaughnessy, 347 U.S. 260 (1954); Service v. Dulles, 354 U.S. 363.

It is imperative that these distortions, which are implicit costs of the MFA system, be minimized so as to allow economic development processes and trade patterns to operate unhindered by needless regulation. To achieve this goal, a renewed MFA should adopt explicit and mandatory measures that afford developing nations which are small suppliers further protections against such arbitrary and unjustified restraints. Such measures could include, among other things: (1) a requirement of more than 6% growth in developing nations' textile importers subject to quota; and (2) a prohibition against quotas on certain categories of products.

4. Aid To Displaced Workers

To further ease the adjustment to GATT rules and fulfill the goals of the MFA, the industrialized nations could also establish assistance programs for workers whose positions are eliminated as their textile and approved industries restructure.

While there may be some loss of employment in textiles by virtue of a gradual shift toward GATT rules under a renewed MFA, these losses undoubtedly will be translated into new positions in service industries. For example, the employment losses in Massachusetts during the 1980-1984 period have translated into substantially more and higher paying jobs in new, high technology industries. The aim of adjustment assistance should be to facilitate precisely this type of shift.

Specifically, worker retraining, placement, relocation allowances and financial assistance (*e.g.*, significant severance pay for any textile or apparel employee who agrees to leave the industry and not return) should be seriously explored as less costly means of addressing the employment effects of textile trade than MFA-authorized protectionism. In contrast to the MFA which, as noted above, saves a small number of low paying jobs in the textile and apparel sectors at tremendous cost, these types of programs can, if carefully structured, result in a more efficient allocation of employment resources into higher paying positions in other growing sectors of the economy which enjoy a comparative advantage. Such programs are also far more target-efficient, aiming directly at the employment effects of international trade in textiles and apparel rather than attempting to indirectly affect this variable through quotas which impose severe costs elsewhere in the economy.

Adjustment assistance must also focus on the family unit of the displaced textile worker. The need to relocate will require that second wage earners outside of textiles find new jobs as well. Further, the possibility of special assistance should be examined for textile mill towns in situations where the entire town, including its secondary industries, are depressed because of decreased employment opportunities at the local mill -- the main employer in the area.

5. Changes In The Textile Trade Policy Process

Finally, the U.S. should adopt domestic measures which further ensure its own adherence to the MFA and afford due process of law to retailers and other parties affected by U.S. actions under the domestic textile program. In this regard, the U.S. could require, among other things; (1) notice and an opportunity for comment; (2) hearings; (3) review of market disruption findings by administrative law judges empowered to overturn such determinations, if they are improper, before the period of consultations have ended; and (4) judicial review of whether U.S. actions to restrict textile and apparel imports are arbitrary, capricious, an abuse of discretion or not in accordance with law. Of course, such safeguards must be carefully thought through and, like other administrative procedures, tailored to the specific objectives of the MFA system.

Whatever their precise form, such procedural safeguards, if adopted, will: (1) minimize errors by the U.S. in administering its textile program and making determinations of market disruption thereunder; (2) curb Executive Branch discretion in regulating textile and apparel imports and ensure U.S. compliance with the MFA; (3) afford all affected parties an opportunity to have their views aired and pertinent evidence considered; and (4) minimize unnecessary costs which protectionism imposes on consumers, retailers and the U.S. economy. As the MFA is a total exception to the rules of the GATT, it is imperative that its administration by the U.S. and other importing nations be vigorously policed so as to ensure that the national departures from the liberalized trading rules go no further than are actually authorized by the MFA.

Finally, while NRMA appreciates the recent change in U.S.T.R.'s policy with respect to "traveling advisors" and very much prefers the new policy to its predecessor, which allowed only textile and apparel industry representatives to travel as observers at the MFA negotiations, U.S.T.R. should abandon the entire system of such traveling advisors. Consultations with the appropriate advisory committees and solicitation of input from the public at large in advance of negotiations should be sufficient to provide information and arguments for each industry's positions. U.S. Government officials would then be free to negotiate in the national interest.

V. CONCLUSION: NRMA's POLICY RECOMMENDATIONS

In sum, NRMA strongly endorses option four, the return of the MFA to its initial trade liberalization approach, with the clear goal of return to GATT-based trade rules by 1991, and urges its adoption as the U.S. position on MFA renewal.[41]

The renewal of the MFA with a date certain for expiration, a mechanism for gradual phase-out and corresponding changes in the U.S. system for administering the MFA is the best approach for achieving the MFA's trade liberalization, expansion and economic development goals and making the gradual transition toward unmanaged trade in textiles and apparel. The U.S. can also take unilateral steps to encourage this adjustment process, including, but not limited to, the provision of meaningful aid to displaced textile and apparel workers.

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[41] This policy choice has also been endorsed by a "Wiseman's Group" appointed by the Director-General of GATT. See Trade Policies For Better Future, GATT at 4 (March, 1985).

This choice offers the benefits of gradually expanded trade in textiles and apparel without the costs attendant to Choice 2, the immediate shift to the GATT rules. This choice also avoids the high costs which would be imposed on importers, retailers, consumers, and the U.S. economy by the adoption of either choice 1, the maintenance of the MFA status quo, or choice 3, the adoption of even more protectionist measures proposed by the domestic industry. In sum, if the U.S. continues to seek to achieve the expansion of textile and apparel trade through the removal of barriers to such trade, its position on MFA renewal is clear. This choice achieves these objectives at a low cost for other affected U.S. interests, including the domestic textile and apparel industries themselves.

STATEMENT OF NECKWEAR ASSOCIATION OF AMERICA, INC.

SUMMARY

While the textile/apparel industry as a whole has some protection, as imperfect as it may be, under the Multifiber Arrangement, the neckwear industry has virtually no protection from imports. More than half of the neckties imported are of materials not covered by the MFA, such as silk. And much of the remaining imports of wool or man-made fiber are from countries with which the United States does not have bilateral agreements, generally developed countries such as Italy. Further, while the average tariff rate last year on clothing imports was in excess of 21 percent, the average duty on necktie imports was just 12 percent.

In 1980, imports had about 4 percent of our market. By 1984, imported neckties had captured almost 20 percent of our market. While overall textile/apparel imports increased by 32 percent in 1984, neckwear imports increased by 64 percent over the same period.

Necktie imports from Italy present a particular problem. Italy is the largest supplier of neckties to the U.S. market accounting for 61 percent of total necktie imports. Imports from Italy accounted for a major portion of the growth in necktie imports between 1983 and 1984, and imports from Italy rose by 68.3 percent during this period.

Pending before this Committee is a bill, H.R. 209, to return the duties on necktie imports to the levels in effect as of January 1, 1981, for a period of five years. Our industry strongly supports enactment of this temporary legislation. However, with specific regard to the MFA, we seek coverage under the Agreement for products that compete directly with those of cotton, wool and man-made fiber, namely silk, other vegetable fibers, and blends not covered by the MFA, as textile products of non-MFA materials compete directly with cotton, wool or man-made fiber products. Moreover, for the first time we are seeing more and more imports from the developing countries. Unless action can be taken, when appropriate, against rapidly increasing imports, the intent of the MFA is easily undermined.

Unless the operation of the MFA can be vastly improved, we would certainly be in favor of scrapping the MFA for quota legislation. But such coverage must extend to all textile products and include developed as well as developing countries. In this latter regard, H.R. 1562, the Textile and Apparel Trade Enforcement Act of 1985, as currently written, does not provide a solution to our industry's import problem. We would hope that if the Committee takes action on this bill, that it would make this important change, otherwise H.R. 1562 would benefit our industry very little.

STATEMENT

The Neckwear Association of America is the trade association for domestic manufacturers of neckwear. Our businesses are concentrated in New York, which accounts for more than one-third of industry employment, and in California, Louisiana, New Jersey, Missouri, North Carolina, Pennsylvania, Texas, Michigan and Massachusetts.

Although the neckwear industry is an integral member of the textile-apparel sector and shares many of its characteristics, neckwear is distinguished from most of the textile and apparel sector by its lack of protection from imports. While the textile/apparel industry as a whole has some protection, as imperfect as it may be, under the Multifiber Arrangement, the neckwear industry has virtually no protection from imports. Only a few of our products are of cotton, wool, or man-made fiber, the products covered by the MFA. More than half of the neckties imported are of materials not covered by the MFA, such as silk. And much of the remaining imports of wool or man-made fiber are from countries with which the United States does not have bilateral agreements, generally developed countries such as Italy. Further, while the average tariff rate last year on clothing imports was in excess of 21 percent, the average duty on necktie imports was just 12 percent.

This has left the necktie industry particularly vulnerable to imports. Producing neckties requires much the same skills and material requirements as does the production of other sewn products. Production start-up costs are minimal. Any country with an established apparel industry can quickly become a producer and exporter of neckties.

Conditions in our industry are rapidly deteriorating as imports increase at an alarming rate. In 1980, imports had about 4 percent of our market. By 1984, imported neckties had captured almost 20 percent of our market (See Table 1). While overall textile/apparel imports increased by 32 percent in 1984, neckwear imports increased by 64 percent over the same period.

This import surge is in large part linked to the tariff cuts negotiated in the last multilateral trade negotiation, the Toyko Round. Tariffs on neckties were cut by 20 to 50 percent. The tariff on silk neckties, the product with the largest import volume, was cut 50 percent.

The tremendous growth in imports has caused a substantial loss in market share held by U.S. producers. In 1984 we had projected a healthy growth in domestic consumption of neckties. We had expected domestic production to share in at least some of that growth. But, earlier predictions that domestic necktie shipments would grow by 15 percent in 1984 (compared to import growth of 64 percent) were far too optimistic due to a very soft fall and Christmas selling period. Domestic industry sales remained static or declined slightly in 1984 compared to 1983 levels while, on the other hand, imports jumped by 64 percent. Imports as a percent of domestic shipments approached 24 percent in 1984 (see Table 2), or about double the 15 percent import-to-domestic shipment ratio in 1983.

Necktie imports from Italy present a particular problem. Italy is by far the largest supplier of neckties to the U.S. market (accounting for 61 percent of total necktie imports); imports from Italy grew from 204,000 dozen in 1981 to 565,000 dozen in 1983 and then jumped to 951,000 dozen in 1984. Imports from Italy accounted for a major portion of the growth in necktie imports between 1983 and 1984, and imports from Italy rose by 68.3 percent during this period. More than half of the necktie imports from Italy consisted of silk neckties. Many of these silk neckties from Italy are being wholesaled in the United States for as little as $3.50 per tie. The consumer, however, is not benefitting from these rock bottom prices, since the stores are generally retailing these ties as "specials" at $12.50–$15 apiece. Few domestically-produced ties of any fabrication can compete with that price.

The neckwear industry has available to it few options to fight the import problem. Some have suggested that the industry file an "escape clause" petition to get relief from imports by demonstrating that the industry has been seriously injured by increasing imports. There are some very valid reasons why we are reluctant to pursue this route. It would take eight months between the time we would file such a case and a final decision were to be reached, during which time imports even at current rates, would be swamping our market. It simply takes too long to get needed action in the fact of rapidly increasing imports. Further, recent decisions by the International Trade Commission and the President, where four of the last five escape clause cases resulted in no relief to the petitioning industry, leave us concerned about what results would be reached in the case of neckwear.

The neckwear industry is trying another route to help our industry stay competitive with imports. Pending before this Committee is a bill, H.R. 209, to return the duties on necktie imports to the levels in effect as of January 1, 1981, for a period of five years. Our industry strongly supports enactment of this temporary legislation. We believe that this temporary respite from the tremendous import growth will prevent imports from overwhelming domestic necktie producers. Because the import surge coincided with the tariff cuts, a return to higher tariff levels will alleviate the pressure of ever-increasing imports. We urge the Committee to report out H.R. 209 favorably.

We would certainly like to see this legislation pass, but the neckwear industry is also looking further into the future. We have been asking ourselves what else can be done. We think that a logical step would be to seek coverage under the MFA for products that compete directly with those of cotton, wool and man-made fiber, namely silk, other vegetable fibers, and blends not covered by the MFA. All neckwear should logically be covered under the international textile agreement. Clearly, textile products of non-MFA materials compete directly with cotton, wool or manmade fiber products. A cheap silk necktie often sells at a price comparable to a domestically-produced polyester necktie.

Beyond this suggestion that neckwear should be covered more completely under the MFA, we would also note the the neckwear industry has a stake in seeing that the MFA is effective. While there have been no "calls" relating to wool or manmade fiber neckties under the current bilateral agreements, for the first time we are seeing more and more imports from the first time we are seeing more and more imports from the developing countries. Unless action can be taken, when appropriate, against rapidly increasing imports, the intent of the MFA is easily undermined. Indeed, we asked the Committee for the Implementation of Textile Agreements (CITA) in November 1984 to take action against imports of man-made fiber neckties from Korea. Monthly our industry is seeing import from Korea growing larger and larger but to date no call has been made.

Unless the operation of the MFA can be vastly improved, we would certainly be in favor of scrapping the MFA for quota legislation. But the quota coverage must extend to all textile products, especially silk, and it must include developed as well as developing countries. In this latter regard, H.R. 1562, the Textile and Apparel Trade Enforcement Act of 1985, as currently written, does not provide a solution to our industry's imports problem because it excludes the European Communities, and therefore Italy, from quota coverage. We would hope that if the Committee takes action on this bill, that it would make this important change, otherwise H.R. 1562 would benefit our industry very little.

TABLE 1.—THE U.S. MARKET FOR NECKTIES, 1980–84

[In thousand dozen]

	Domestic shipments [1]	Imports	Exports	Apparent domestic consumption	Imports as a percent of apparent domestic consumption
1980	6,200	268	90	6,378	4.2
1981	5,900	373	121	6,152	6.1
1982	5,700	562	171	6,091	9.2
1983	6,500	948	155	7,293	13.0
1984 [2]	6,500	1,555	190	7,865	19.8

[1] Estimated by the Neckwear Association of America, Inc., based on a survey of its members.

[2] Estimated.

Source: Neckwear Association of America, Inc. and U.S. Department of Commerce data.

TABLE 2.—THE RATIO OF U.S. IMPORTS TO U.S. SHIPMENTS OF NECKTIES (IN TERMS OF DOZENS), 1980–84

Year	Percent
1980	4.3
1981	6.3
1982	9.9
1983	14.6
1984 [1]	23.9

[1] Estimated.

Source: See Table 1.

STATEMENT OF HON. JAMES G. MARTIN, GOVERNOR OF NORTH CAROLINA

As Governor of North Carolina I am very concerned about the job losses in the textile and apparel industries not only in the State of North Carolina but for the entire nation. North Carolina is the leading apparel and textile state in the nation. Approximately 300,000 of our citizens work directly in the 2,000 textile and apparel firms of our state. These are dedicated and hard working tax paying citizens who are producing quality U.S. made products. These industries are severely impacted and these individuals' economic livelihood is being totally disrupted because of unfair competition which is beyond their control. As these textile and apparel jobs leave our state and nation for overseas markets they disrupt the personal lives and the economic well-being of our society.

Some 21,042 fewer textile and apparel jobs existed in April, 1985, as compared to April, 1984. For example, the 21,042 job losses within the last year will cut the textile and apparel payrolls by more than $254 million in North Carolina alone. Moreover, the withdrawal of these pay checks from our economy will mean job losses in other sectors as well. The dry cleaners, the gasoline stations, the grocers, and hundreds of other businesses large and small that serve our textile and apparel families will also feel the loss.

In the end, we cannot hope to estimate the total economic losses that are occuring daily to the import-related cutbacks in our apparel and textile industries. Nor can we accurately assess the tremendous emotional pain and anguish that is now being and will in the future continue to be felt by those unable to meet the daily needs of their families.

As a former member of Congress I fully understand that this subject of international trade is a very complicated one. However, we must give our textile and apparel industry an opportunity to regain their competitive footing and remain one of our essential U.S. industries. We must act to limit the magnitude of the costs our society incurs from unbounded imports. The Textile and Apparel Enforcement Act of 1985 is desperately needed to help sustain these two basic and vital industries.

OPELIKA MANUFACTURING CORP.,
Opelika, AL, April 2, 1985.

Congressman BILL NICHOLS,
107 Federal Building, Opelika, AL.

DEAR CONGRESSMAN NICHOLS: Here at Opelika Manufacturing Corp., we are deeply concerned with the impact of imports on the textile industry. We feel this is a crisis situation that demands immediate attention.

Studies have shown a doubling of textile imports in the past four years. If this growth rate continues at the 1984 level of 36 percent, then our domestic market for cotton textiles will diminish in the next four years.

Because of the growing proportion of imports, many plants are being forced to close or lay off workers each month. As a result, this loss of jobs prevents those unemployed Americans from contributing to our nation's economic growth and reducing the budget deficit. For example, in 1984, the textile/apparel trade deficit was $16 billion. This amount made up 13 percent of the total U.S. merchandise trade deficit.

In considering these alarming facts, it is apparent that serious action needs to be taken to curb this import crisis. We need a passage of legislation, which will turn around the tremendous increase in imports over the past few years. This legislation should also establish import growth in line with growth in the domestic market.

But for this legislation to occur, we need your support. With your help we can end this widespread problem, and, as a result, put Alabama's textile industry back up at the top.

Your support in this matter will be greatly appreciated.

Sincerely,

STAN MAHAFFEY,
Vice President and General Manager.

PHIFER WIRE PRODUCTS, INC.,
Tuscaloosa, AL, March 22, 1985.

Representative SAM GIBBONS,
Chairman, Trade Subcommittee, Rayburn House Office Building, Washington, DC.

DEAR REPRESENTATIVE GIBBONS: I am a member of the Vinyl Coated Product Weavers Association. As such, our company is vitally concerned about the ever increasing volume of imported fabric and finished patio furniture which is flooding our domestic market with low prices and often inferior quality. Our Association represents almost all of the manufacturers of woven vinyl coated polyester textile products. Our particular company has offices and manufacturing facilities in Tuscaloosa, Alabama. We also have warehouse facilities in Clearwater, Florida; Dallas, Texas; Long Island, New York; Chicago, Illinois; City of Industry, California; Salt Lake City, Utah; and Hawaii. Currently, we have almost 900 employees and if you count the dependents, this company is responsible for the livelihood of about 2,500 people. Unless something is done to curb the importation of these low priced, inferior textile products, it could very well be that a number of our people will lose their jobs within the next few years. At the very least, our expansion plans will certainly have to be curtailed. Needless to say, none of us want to see that happen.

We want you to know that we are vitally concerned with this situation. We urge you, as Chairman of this subcommittee, to do everything in your power to pass the "Textile and Apparel Trade Enforcement Act of 1985", or similar legislation which will offer some protection to us and similar manufacturers in this country. We want to continue to employ people, produce high quality goods, and be the type of corporate citizens that mean something to our communities. This is simply not going to be possible if imports continue the way they are.

We would like to know your feelings on this issue and what is being done to help in this situation. Also, if you know of any additional steps we might take to assist in the passage of this or similar legislation please let us know. Thank you for considering our views.

Sincerely yours,

OLIVER H. WARREN,
Market Manager/Phifertex®,
Member, Vinyl Coated Product Weavers Association.

STATEMENT OF HON. HAROLD ROGERS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KENTUCKY

Mr. Chairman, I appreciate this opportunity to testify before the subcommittee in support of H.R. 1562, the Textile and Apparel Trade Enforcement Act of 1985. I strongly support passage of H.R. 1562 because it represents the most effective method of establishing a fair and consistent practice of trade with respect to the fiber, textile, and apparel complex.

I am extremly concerned about the current condition of our textile and apparel industry, and the enormous pressure being placed upon it by the massive textile and apparel trade deficit. I would like to outline some of my thoughts and observations regarding this deficit, the impact it is having, and the disastrous results it portends for the future should Congress fail to take action.

As has been indicated many times to this subcommittee, the importation of textile related products has risen dramatically over the last several years. This growth is unprecedented, disruptive, and uncapped for all practical purposes. Import penetration is rising in many more markets as our foreign competitors, with the assistance of their governments, do their level best to abuse trade agreements in efforts to create further inroads towards disruption of our domestic market.

In the last two years alone, imports have soared by sixty-five percent. Apparel imports, to which manufacturers in my district are most sensitive, now account for over half of domestic sales.

Several factors have been cited to explain the ever increasing market share claimed by foreign competitors. Their applicability, however, is questionable. The appreciation of the U.S. dollar is one factor mentioned for the high level of imports. Yet, an April 1985 impact study conducted by Economic Consulting Services, Inc. fails to establish such a relationship. Instead, little or no impact on imports from major exporting countries is indicated as a result of the overvalued American dollar.

Another reason used to explain our inability to compete is the failure of this nation's industry to reinvest their profits towards modernization and improved productivity. But this is not the case. Industry statistics indicate that capital spending has averaged $1.6 billion since 1980, while overall productivity has increased 4.5% a year since 1974. The 4.5% productivity figure compares to a 2% productivity growth rate for all U.S. manufacturing during the same period. Our domestic industries have done a solid job utilizing new technologies and efficiently operating their traditional operations.

The reality of our import problems lies with the ruthless nature of our competition, and the failure of our trade agreements to tame these aggressors in a manner consistent with objectives of those agreements. The Multi-Fiber Arrangement, in numerous ways, has been unable to effectively maintain a steady, stable market share for both ourselves and our foreign competitors. Yet, an orderly growth of textiles and textile related imported is its goal.

Foreign competitors are using every conceivable method to evade an MFA fraught with loopholes. They are changing blend levels and blending categories to remain outside the coverage of the MFA—this alone accounted for the entry of 10 million garments last year. All these items have entered the country outside of the quota system.

Under the MFA, countries are expanding their shipments of certain items by transferring quotas from one category to another, or by borrowing quotas from past or future years to create ballooning growth.

It is absolutely essential that this Congress enact measures which return import levels to where they belong had the MFA been properly implemented, and to set forth new rules which will effectively prevent any circumvention of our quota agreements. Literally scores of items which do now receive coverage under the MFA must be included as well, to effect the kind of import growth that has been the objective of the Multi-Fiber Arrangement.

If steps are not taken to enact this legislation, the realities of our textile trade deficit will be further translated into the realities of plant closings and job disclocation.

As the members of this subcommittee know, industry analysts estimate that with every 1 billion square yards of imports, 100,000 domestic jobs are lost. This subcommittee is already aware of the jobs and plants which have been victimized by surging import levels.

But the plant owners and managers in my congressional district have laid out the picture more completely. Many of the textile and apparel plants operate in towns and communities which are rural, and in the case of my home district, still suffering from severely depressed economies and endemically high unemployment.

Much of the work is performed by women, making up sixty per cent of the total textile industry workforce. And because many of these jobs are entry level, the job alternatives in a depressed region seldom lead to higher skilled positions, but rather to lower paying jobs, unemployment compensation, or welfare.

These situations are occurring in my district right now. In an areas where apparel employment represents 36% of all manufacturing jobs, three plants have closed over the past two years. In addition, one third of the plant managers contacting me over recent months report shortened work weeks, slowdowns, and sporadic layoffs of various lengths. The prices we are paying for improperly enforced bilateral agreements are the jobs and moderate incomes which support our rural communities.

In addition, these small and medium sized apparel manufacturers contribute significantly to their communities by generating income and feeding that money back into surrounding local businesses.

The fall of an individual manufacturing plant here or there may not signal a threat to any domestic industry. However, the current history of textile and apparel plant closings strongly suggests that the half million jobs already lost as a result of imports will increase precipitously if we do not take the necessary steps towards orderly import growth.

We cannot afford to simply stand by and watch our industry annually invest in equipment, jockey for different markets at high costs, and continue to implement work slowdowns, simply becasue we are unwilling to fulfill the commitments made under the Milti-Fiber Arrangement.

I hope this subcommittee will fully consider the economic impact and degrees of fairness which are at issue with the textile and apparel import situation. And I strongly urge the subcommittee move ahead with passage of the Textile Trade and Enforcement Act of 1985.

SEARS, ROEBUCK & CO.,
CORPORATE GOVERNMENTAL AFFAIRS,
Washington, DC, April 11, 1985.

Hon. SAM M. GIBBONS,
Chairman, Subcommittee on Trade, Ways and Means Committee, House of Representatives, Washington, DC.

DEAR CHAIRMAN GIBBONS: During the April 3, 1985 Trade Subcommittee's hearing on current conditions in the textile and apparel industries, Mr. Murray H. Finley of the Amalgamated Clothing and Textile Workers Union displayed a chart with four Sears "Arnie" dress shirts, each with a different country of origin, and Sears alleged cost figures for those shirts. The alleged cost-to-Sears figures were inaccurate.

Sears, in fact, paid one cost per shirt to a single domestic manufacturer for the shirts made entirely in the U.S.A. and those assembled in Guyana and Colombia with American-made fabricated components under § 807 of the Tariff Schedules.

While some inventory of the Hong Kong-labeled shirt (constructed of American-made cloth) still exists, manufacture of that particular shirt was discontinued almost a year ago.

I might add that the style of "Arnie" dress shirt displayed is currently made exclusively in the United States.

I would appreciate your doing whatever is appropriate in setting the record straight in this matter.

My staff and I are available for assistance whenever your office may have an inquiry regarding Sears products or operations.

Very truly yours,

RANDOLF H. AIRES,
Vice President.

STATEMENT OF SIEGEL, MANDELL & DAVIDSON, P. C., ON BEHALF OF SIGALLO-PAC, LTD. OF GUAM

SUMMARY

On behalf of our client, Sigallo-Pac Ltd of Guam, pursuant to Press Release No. 10 of the Subcommittee on Trade, this statement is submitted in regard to H.R. 1562. In summary, we urge that an appropriate amendment be adopted to exempt insular possessions from the definition of "country" contained in § 4(4) of the bill, coupled with adoption of an amendment to ensure that authority to impose import restraints pursuant to 7 U.S.C. 1854 by the Committee for the Implementation of Textile Agreements (CITA) on shipments of wearing apparel produced or assembled in an insular possession, be left untouched. Otherwise, adoption of the bill in its present form would quickly strangle Sigallo-Pac and force cessation of its operations.

STATEMENT

THE HISTORICAL PERSPECTIVE: THE "INSULAR POSSESSION" PREFERENCE

The legislative purpose underlying General Headnote 3(a) of the Tariff Schedules of the United States (see Appendix) and which is intended to promote the growth of manufacturing industry in the insular possessions, dates back almost to the turn of the century. The Act of March 8, 1902 (32 Stat. 54) granted a 25% duty advantage to articles the growth or product of the Philippines (then a possession of the United States). This provision in turn gave rise to § 5 of the Tariff Act of 1909, allowing duty-free treatment for articles the growth or product of, or manufactured in the Philippines which did not contain foreign materials to the value of more than 20%. Section 5 was reenacted in the Tariff Acts of 1913 and 1922, and was carried forward into § 301 of the Tariff Act of 1930, which in turn become § 301a of the Tariff Act of 1930 (19 U.S.C. 1301a) as added by the Customs Simplification Act of 1954. This last provision granted duty-free treatment to articles grown or produced in insular possessions, not containing foreign materials exceeding 50%, and in turn became the model for present General Headnote 3(a).

Unfortunately, this beneficial policy has come under severe attack by those who would throw up a wall of protectionism in favor of the domestic mainland wearing apparel industry, without regard to the drastic economic problems thereby created in our insular possessions, and the consequent inescapable weakening of their ties to the mainland. On the administrative front, the new "rules of origin" for textile products published in final form in T.D. 85-38, 19 Cust. Bull. 12, of March 20, 1985 (page 1), implicitly overrule a judicial decision and numerous Customs rulings defining the "country-of-origin" as the country or territory where the item was completed (substantially transformed), and would, once completely implemented, drastically interdict shipments of wearing apparel to the mainland.[1]

THE CRIPPLING EFFECT OF H.R. 1562 ON SIGALLO-PAC'S SHIPMENTS FROM GUAM

H.R. 1562, like T.D. 85-38, would also seriously jeopardize the wearing apparel industry in Guam, but by utilizing different weaponry. It would, in the process of "globalizing" quotas, lump wearing apparel produced or assembled in an insular possession with all such products shipped from foreign countries [§ 4(4)]. The bill would impact upon Sigallo-Pac's operations as follows:

Currently, sweaters assembled in Guam by Sigallo-Pac are classified under Item 379.76, TSUS, as "other men's or boys' wearing apparel, not ornamented: of wool: knit: valued over $5 per pound: other", category 445. By CITA notice published in the Federal Register for March 4, 1985, at page 3649 (copy attached), 160,000 dozen cotton, wool, and man-made fiber sweaters in categories 345, 445, 446, 645, and 646 assembled in Guam but determined to be "products of foreign countries or foreign territories", are allowed entry without visa or license. This is described as "an interim arrangement which is subject to change pending further review, including necessary changes which may result from the issuance of final Customs Regulations on country of origin determinations".

The quota restraint provisions in H.R. 1562 distinguish among three classes of countries:

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[1] H.R. 2225, currently pending before the Subcommittee on Trade, would provide a limited exception to T.D. 85-38 with regard to wearing apparel assembled in an insular possession by joining together otherwise completed knit-to-shape component parts of foreign origin.

(1) *Major exporting countries.*—Those countries whose exports to the United States equal or exceed 1.25% of total U.S. textile/apparel imports. Under the bill, twelve nations would (currently) be classified as "major exporting countries" subject to severe treatment in terms of quota rollbacks and restrictive annual growth in various textile categories. These countries are Brazil, China, Hong Kong, India, Indonesia, Japan, Korea, Pakistan, Philippines, Singapore, Taiwan, and Thailand.

(2) *Exporting countries.*—Those countries whose exports to the U.S. represent less than 1.25% of the total U.S. textile/apparel imports. Mexico and all other countries eligible under the Caribbean Basin Economic Recovery will be exempted from classification as "major exporting countries".

(3) *Exempted countries.*—Canada and the countries of the European Economic Community (EEC) are totally exempt from the import restraint provisions of this bill.

Because Guam's shipments to the United States represent less than 1.25% of the total U.S. textile/apparel imports, it would be classified as an "exporting country" under the bill. Quota levels for "exporting countries", except for "import sensitive categories", will be limited in 1985 to an amount equal to 115 percent of the 1984 import level for that category while growth in subsequent years will be limited to 6% (except for wool product categories). An "important sensitive category" is, in general, a category (other than a category relating to textile products produced in Caribbean region countries which include Mexico) in which the ratio of imports are 40% or more of domestic production for the preceding year; however, a wool product is, per se, included in the "import sensitive" category. Therefore, categories 345, 445, and 645 which constitute the primary exports from Guam are "import sensitive". The applicable formula used in computing 1985 quota levels for import sensitive categories takes 1984 as a base year and allows for only 1% annual growth.

With regard to category 445, imports from Guam in 1984 are either non-existent or inconsequential and, therefore, the formula which utilizes 1984 statistics as a base year would be inapplicable. In such cases, the bill provides for a "minimum quantity" formula pursuant to § 5(c). Under this provision, a minimum quantity of 100,000 square yards equivalent (in the case of a category covering wool products) would be allowed entry, or using the conversion formula of 14.88 square yards equivalent per dozen, 6720 dozen. Thus, Sigallo-Pac, presently the sole textile manufacturer on Guam, would be faced with a yearly quota representing under 5% of its present annual quantity of 140,000 dozen produced and shipped to the mainland. This minute level would surely spell the end to the company's operation.

To be sure, § 5(d) of the bill allows the Secretary of Commerce to prescribe regulations governing the entry, etc. of textiles and textile products as may be necessary to carry out the legislation. However, the validity of the existing CITA exemption under 7 U.S.C. 1854 would be severely undermined by enactment of H.R. 1562 into law in that, within the four corners of the bill, there is the overriding specification of quota treatment for wearing apparel produced or assembled in Guam. Therefore, under the proposed bill it is uncertain whether administrative quota limits would be set for Guam. In any event, regardless of the residual authority of the Administration to continue the present exemption in the event of enactment of H.R. 1562, there is certainly no incentive whatsoever in the bill to do so. If anything, enactment of the bill would be perceived as a strong signal to terminate the exemption.

THE ECONOMIC CONSEQUENCES IN GUAM OF SIGALLO-PAC'S DEMISE

Sigallo-Pac was established in 1981. From its inception, the company has consulted with Customs Service Headquarters and its operations have been governed and guided by rulings obtained at each step of the way from the Customs Service, establishing the factory's output as entitled to duty-free treatment under General Headnote 3(a).[2] The initial years of operation were characterized by heavy investment in plant and equipment, accompanied by substantial outlays to train local residents in the exacting requirements for the manufacture of finely-crafted sweaters selling near the top of the line. Because of these heavy start-up expenditures, it is only recently that Sigallo-Pac started to show a profit. The company presently employs approximately 300 United States U.S. minimum wages. Presently, Sigallo-Pac is the largest single manufacturing operation, and the largest private employer, on the island of Guam. It has a modern air-conditioned plant which has been described by the United States Department of Interior as a model factory which is precisely the type of company which the Administration wants to encourage. Should it cease operations, the economic ramifications would be widespread. The company's annual payroll, in excess of $2,000,000, would be lost; those workers thrown into idleness would be hard-pressed to find other jobs; and doubtless Guam's present unemployment rate of 7.9% would thereby increase.

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[2] See Customs rulings 067217, 071303 and 071359.

Viewed from another perspective, should Sigallo-Pac be forced out of business, the chances of Guam attracting replacement private investment capital would be nil. In addition, Guam's requirements for continuing monetary assistance from Washington would doubtless increase.

PROPOSED AMENDMENTS

Our primary position is that considerations of elementary fairness to the young and struggling textile industry in Guam, coupled with an appreciation of the special status historically afforded to our insular possessions, require a modification of the definition of "country" under § 4(4). It is important to note that the EEC and Canada are generally exempted from the quota restraint provisions of the bill. To treat a U.S. insular possession in a harsher and more restrictive fashion than these foreign countries is anomalous to say the least, and most disturbing. Therefore, it is urged that § 4(4) be modified by deleting the words "or an insular possession of the United States". A counterpart provision should be inserted elsewhere in the bill stating in substance as follows: "Nothing contained in this bill shall be construed to limit the authority vested in the President under 7 U.S.C. 1854 to proclaim or impose special quantitative restrictions, or exemptions therefrom, on articles of wearing apparel assembled in an insular possession of the United States".

This language will ensure continuation of the necessary administrative flexibility to extend such quota treatment to products of this class as is necessary or appropriate to balance the interests of the Guamanian textile industry with those of the domestic mainland industry producing like or competing products.

As an alternative, and only if the Subcommittee finds our proposed amendment to § 4(4) unacceptable, § 5(d) of the bill, pertaining to enforcement, should be amended to include the same specific legislative recognition and approval (as set forth above) of the authority presently vested in the President and his delegees under 7 U.S.C. 1854 to implement quota restrictions, or exemptions therefrom, on shipments of wearing apparel from the insular possessions.

APPENDIX

General Headnote 3(a), Tariff Schedules of the United States.

(a) Products of Insular Possessions. (i) Except as provided in headnote 6 of subpart E of part 2 of schedule 7, and except as provided in headnote 3 of subpart A of part 7 of schedule 7, articles imported from insular possessions of the United States which are outside the customs territory of the United States are subject to the rates of duty set forth in column numbered 1 of the schedules, except that all such articles the growth or product of any such possession, or manufactured or produced in any such possession from materials the growth, product, or manufacture of any such possession or of the customs territory of the United States, or of both, which do not contain foreign materials to the value of more than 70 percent of their total value (or more than 50 percent of their total value with respect to articles described in section 213(b) of the Caribbean Basin Economic Recovery Act), coming to the customs territory of the United States directly from any such possession, and all articles previously imported into the customs territory of the United States with payment of all applicable duties and taxes imposed upon or by reason of importation which were shipped from the United States, without remission, refund, or drawback of such duties or taxes, directly to the posession from which they are being returned by direct shipment, are exempt from duty.

(ii) In determining whether an article produced or manufactured in any such insular possession contains foreign materials to the value more than 70 percent, no material shall be considered foreign which either -

(A) at the time such article is entered, or

(B) at the time such material is imported into the insular possession,

may be imported into the customs territory from a foreign country, other than Cuba or the Philippine Republic, and entered free of duty; except that no article containing material to which (B) of this subdivision applies shall be exempt from duty under subdivision (i) unless adequate documentation is supplied to show that the material has been incorporated into such article during the 18-month period after the date on which such material is imported into the insular possession.

(iii) Subject to the limitations imposed under section 503(b) and 504(c) of the Trade Act of 1974 articles designated eligible articles under section 503 of such Act which are imported from an insular possession of the United States shall receive duty treatment no less favorable than the treatment afforded such articles imported from a beneficiary developing country under title V of such Act.

(iv) Subject to the provisions in section 213 of the Caribbean Basin Economic Recovery Act, articles which are imported from insular possessions of the United States shall receive duty treatment no less favorable than the treatment afforded such articles when they are imported from a beneficiary country under such Act.

linearity) of ±0.05 degrees and a reproducibility of 0.03 degrees over a 25 degree range of rotation. The National Bureau of Standards advises in its memorandum dated January 7, 1985 that (1) the capability of the foreign instrument described above is pertinent to the applicant's intended purpose and (2) it knows of no domestic instrument or apparatus of equivalent scientific value to the foreign instrument for the applicant's intended use.

We know of no other instrument or apparatus of equivalent scientific value to the foreign instrument which is being manufactured in the United States.

(Catalog of Federal Domestic Assistance Program No. 11.105, Importation of Duty-Free Educational and Scientific Materials)

Frank W. Creel,

Acting Director, Statutory Import Programs Staff.

[FR Doc. 85-5152 Filed 3-1-85; 8:45 am]

BILLING CODE 3510-DS-M

Decision on Application for Duty-Free Entry of Scientific Instrument; University of Wisconsin-Madison

This decision is made pursuant to Section 6(c) of the Educational, Scientific, and Cultural Materials Importation Act of 1966 (Pub. L. 89-651, 80 Stat. 897; 15 CFR Part 301). Related records can be viewed between 8:30 AM and 5:00 PM in Room 1523, U.S. Department of Commerce, 14th and Constitution Avenue, NW., Washington, D.C.

Docket No. 84-322. Applicant: University of Wisconsin-Madison, Madison, WI 53706. Instrument: Infrared Interferometer System, Model BBDA 2.01-1. Manufacturer: Bomem, Inc., Canada. Intended use: See notice at 49 FR 42775.

Comments: None received.

Decision: Approved. No instrument of equivalent scientific value to the foreign instrument, for such purposes as it is intended to be used, is being manufactured in the United States.

Reasons: The foreign instrument provides high-resolution interferometric measurements of temperature and humidity from a geostationary-altitude platform. The National Bureau of Standards advises in its memorandum dated December 5, 1984 that (1) the capability of the foreign instrument described above is pertinent to the applicant's intended purpose and (2) it knows of no domestic instrument or apparatus of equivalent scientific value to the foreign instrument for the applicant's intended use.

We know of no other instrument or apparatus of equivalent scientific value to the foreign instrument which is being manufactured in the United States.

(Catalog of Federal Domestic Assistance Program No. 11.105, Importation of Duty-Free Educational and Scientific Materials)

Frank W. Creel,

Acting Director, Statutory Import Programs Staff.

[FR Doc. 85-5153 Filed 3-1-85; 8:45 am]

BILLING CODE 3510-DS-M

COMMITTEE FOR THE IMPLEMENTATION OF TEXTILE AGREEMENTS

Import Limit and Certification Requirements for Certain Cotton, Wool, and Man-Made Fiber Sweaters Assembled in Guam From Imported Parts

February 27, 1985.

The Chairman of the Committee for the Implementation of Textile Agreements (CITA), under the authority contained in E.O. 11651 of March 3, 1972, as amended, has issued the directive published below to the Commissioner of Customs to be effective on April 15, 1985. For further information contact Claire McDermott, International Trade Specialist (202) 377-4212.

Background

Effective on April 15, 1985, cotton, wool and man-made fiber sweaters in Categories 345, 445, 446, 645 and 646, which are determined by the U.S. Customs Service to be products of foreign countries or foreign territories and exported from the U.S. insular possession of Guam and are certified to have been assembled in Guam, may be entered into the United States for consumption, or withdrawn from warehouse for consumption, in an amount not to exceed 180,000 dozen. This limited exception will be effective for sweaters exported from Guam during the period which began on November 1, 1984 and extends through October 31, 1985.

A certification will be required and will be issued by the authorities in Guam prior to exportation as verification of assembly in Guam. A facsimile of the certification stamp is published as an enclosure to the letter to the Commissioner of Customs which follows this notice.

For those sweaters properly certified, no export visa or license will be required from the country of origin of the merchandise, and imports entered under this procedure will not be charged to limits established for exports from the country of origin. Exports of sweaters in Categories 345, 445, 446, 645 and 646, which are not accompanied by a certification and those in excess of 180,000 dozen, will require the appropriate visa or export license from the country of origin and will be subject to any other applicable restriction.

This is an interim arrangement which is subject to change pending further review, including necessary changes which may result from the issuance of final Customs regulations on country of origin determinations.

A description of the textile categories in terms of T.S.U.S.A. numbers was published in the **Federal Register** on December 13, 1982 (47 FR 55709), as amended on April 7, 1983 (48 FR 15175), May 3, 1983 (48 FR 19924), December 14, 1983 (48 FR 55607), December 30, 1983 (48 FR 57584), April 4, 1984 (49 FR 13397), June 28, 1984 (49 FR 26622), July 16, 1984 (49 FR 28754), November 9, 1984 (49 FR 44782), and in Statistical Headnote 5, Schedule 3 of the TARIFF SCHEDULES OF THE UNITED STATES ANNOTATED (1985).

To facilitate transition to the new procedure, importers entering or withdrawing goods from warehouse for consumption in the United States before April 15, 1985, which have been exported on and after November 1, 1984 can obtain waivers from the certification requirement by addressing a request to: Office of Textiles and Apparel, International Agreements and Monitoring Division, Room 3110, U.S. Department of Commerce, 14th and Constitution Avenue NW., Washington, D.C. 20230, Attention: Waivers.

The following information should be included:

Port of Entry (indicating whether seaport or airport)
Name and Address of Importer
Name and Telephone Number of Customs Broker
Description of Merchandise
Category and TSUSA Number
Quantity (Units as set out in TSUSA)
Entry Number or Bill of Lading Number
Name of Carrier
Date of Export
Exporter.

Any waiver will be subject to the Office of Textiles and Apparel receiving confirmation from proper authorities in Guam. Information included in any request for a waiver is subject to Section 1001 of Title 18 of the U.S. Code, which provides penalties for making false statements to any department of the United States Government.

Walter C. Lenahan,

Chairman, Committee for the Implementation of Textile Agreements.

February 27, 1985.

Committee for the Implementation of Textile Agreements

Commissioner of Customs,
Department of the Treasury, Washington D.C.

Dear Mr. Commissioner: Under the terms of section 204 of the Agricultural Act of 1956, as amended (7 U.S.C. 1854), and in accordance with the provisions of Executive Order 11651 of March 3, 1972, as amended, effective on April 15, 1985, you are directed to permit entry or withdrawal from warehouse for consumption in the United States of 100,000 dozen of cotton, wool and man-made fiber textile products in Categories 345, 445, 446, 645, and 646, the product of any foreign country or foreign territory, as determined under Customs Regulation Part 12, Section 12.130, and which have been certified as assemblud in Guam and exported to the United States during the twelve-month period which began on November 1, 1984 and extends through October 31, 1985. You are directed not to require any otherwise applicable export visa or license and not the charge against any otherwise applicable import restriction sweaters subject to this provision. A certification will be issued by the aurthorties in Guam prior to exportation as verification of assembly in Guam. A facsimile of the certification stamp is enclosed.

Imports of cotton, wool and man-made fiber textile products in Categories 345, 445, 446, 645 and 646 assembled on Guam, but not of Guam origin, which are not accompanied by a certification and those in excess of 100,000 dozen which have been exported during the twelve-month period which began on November 1, 1984 and extends through October 31, 1985 will require the appropriate visa or export license from the country of origin and will be charged to any applicable quota.

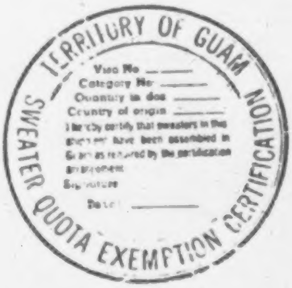
A description of the textile categories in terms of T.S.U.S.A. numbers was published in the Federal Register on December 13, 1982 (47 FR 55709), as amended on April 7, 1983 (48 FR 15175), May, 1983 (48 FR 19924), December 14, 1983 (48 FR 55607), December 30, 1983 (48 FR 57584), April 4, 1984 (49 FR 13397), June 28, 1984 (49 FR 26622), July 16, 1984 (49 FR 28754), November 9, 1984 (49 FR 44782), and in Statistical Headnote 5, Schedule 3 of the TARIFF SCHEDULES OF THE UNITED STATES ANNOTATED (1985).

The Committee for the Implementation of Textile Agreements has determined that this action falls within the foreign affairs exception to the rulemaking provisions of 5 U.S.C. 553.

Sincerely,

Walter C. Lenahan,

Chairman, Committee for the Implementation of Textile Agreements.


TERRITORY OF GUAM
SWEATER QUOTA EXEMPTION CERTIFICATION
Visa No. ______
Category No. ______
Quantity in doz ______
Country of origin ______
I hereby certify that sweaters in this shipment have been assembled in Guam as required by the certification arrangement.
Signature
Date ______

[FR Doc. 85-5155 Filed 3-1-85; 8:45 am]

BILLING CODE 3510-DR-M

Import Limit and Certification Requirements for Certain Cotton, Wool, and Man-Made Fiber Sweaters Assembled in the Commonwealth of the Northern Marianas Islands (CNMI) From Imported Parts

February 27, 1985.

The Chairman of the Committee for the Implementation of Textile Agreements (CITA), under the authority contained in E.O. 11651 of March 3, 1972, as amended, has issued the directive published below to the Commissioner of Customs to be effective on April 15, 1985. For further information contact Claire McDermott, International Trade Specialist, (202) 377-4212.

Background

Effective on April 15, 1985, cotton, wool and man-made fiber sweaters in Categories 345, 445, 446, 645 and 646, which are determined by the U.S. Customs Service to be products of foreign countries or foreign territories and exported from the Commonwealth of the Northern Marianas Islands (CNMI) and are certified to have been assembled in the CNMI, may be entered into the United States for consumption, or withdrawn from warehouse for consumption, in an amount not to exceed 70,000 dozen. This limited exception will be effective for sweaters exported from the CNMI during the period which began on November 1, 1984 and extends through October 31, 1985.

A certification will be required and will be issued by the authorities in the CNMI prior to exportation as verification of assembly in the CNMI. A facsimile of the certification stamp will be published in the Federal Register as soon as it is received from DNMI authorities.

For those sweaters properly certified, no export visa or license will be required from the country of origin of the merchandise, and imports entered under this procedure will not be charged to limits established for exports from the country of origin. Exports of sweaters in Categories 345, 445, 446, 645 and 646, which are not accompanied by a certification and those in excess of 70,000 dozen, will require the appropriate visa or export license from the country of origin and will be subject to any other applicable restriction.

This is an interim arrangement which is subject to change pending further review, including necessary changes which may result from the issuance of final Customs regulations on country of origin determination.

A description of the textile categories in terms of T.S.U.S.A. numbers was published in the Federal Register on December 13, 1982 (47 FR 55709), as amended on April 7, 1983 (48 FR 15175), May 3, 1983 (48 FR 19924), December 14, 1983 (48 FR 55607), December 30, 1983 (48 FR 57584), April 4, 1984 (49 FR 13397), June 28, 1984 (49 FR 26622), July 16, 1984 (49 FR 28754), November 9, 1984 (49 FR 44782), and in Statistical Headnote 5, Schedule 3 of the TARIFF SCHEDULES OF THE UNITED STATES ANNOTATED (1985).

To facilitate transition to the new procedure, importers entering or withdrawing goods from warehouse for consumption in the United States before April 15, 1985, which have been exported on and after November 1, 1984, can obtain waivers from the certification requirements by addressing a request to: Office of Textiles and Apparel, International Agreements and Monitoring Division, Room 3110, U.S. Department of Commerce, 14th and Constitution Avenue NW., Washington, D.C. 20230, Attention: Waivers.

The following information should be included:

Port of Entry (indicating whether seaport or airport)
Name and Address of Importer
Name and Telephone Number of Customs Broker
Description of Merchandise
Category and TSUSA Number
Quantity (Units as set out in TSUSA)

SYCAMORE, AL, *April 9, 1985.*

To Whom It May Concern:

I am divorced and have two children and I have a house to pay for and other bills. I haven't found a job. And my unemployment is running out. I have one more check. Then I don't know what me and these kids will do. We will lose our home and won't have no where to live. It is a bad situation. It has really kept my nerves tore up bad when you don't know whether you are gonna have a place to live. Please help us to get our jobs back. I have been working ever since I have been old enough to work. I have been with Avondale Mills for 11 years. I went to work when I was fixing to turn 17 years old and now I am 28 years old. They are not no jobs around here. I have been everywhere. They cut our unemployment out. I don't know what they think people are gonna do. We all just about around Sycamore area have worked here as long as we could. It is not easy either living on $120.00 a week but it helps and now since it is gonna be cut out I don't know what me and everyone else is gonna do. I have feelings for other people as much as myself. So please help us to get our jobs back. I sure hope you have a heart for us people. You just don't know what it is like not knowing whether your gonna have a home and money to buy your children's clothes and feeding them and sending them to school. Please help us.

Thank you.

WANDA KAY SNEED.

STATEMENT OF HON. JOHN M. SPRATT, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH CAROLINA

Mr. Chairman and Members of this Subcommittee, I respectfully join my colleagues on the Textile Caucus in urging you to report favorably H.R. 1562, the Textile and Apparel Trade Enforcement Act of 1985.

As members of this Subcommittee, you know that this legislation would limit the rate of growth of U.S. textile and apparel imports from most foreign countries except Canada and our major trading partners in Western Europe. You are also aware that this legislation has been introduced in the wake of an unprecedented increase in textile and apparel imports, which have deprived thousands of Americans of their jobs and now threaten the livelihoods of thousands more. These imports have significantly widened the U.S. trade deficit and worsened our balance of payments.

Because of this import crisis, 290 members of the House and 53 members of the Senate—more than a majority of both bodies—have joined as cosponsors of this legislation. This broad support, extraordinary for legislation of this scope and complexity, reflects the importance of the textile and apparel industry throughout the United States and the growing consensus that U.S. import quotas must be tightened if this vital industry is to survive.

I join in supporting H.R. 1562 for several reasons.

First, in towns and communities throughout my district in South Carolina, I have seen first-hand the devastating effect of textile and apparel imports. Despite costly investments in new plant and equipment, once-prospering businesses have closed or shut down major product lines, slowing local business activity and depriving towns of a needed tax base. Several generations of families have lost their sole source of support because of plant closings caused by imports. In many cases retraining and reemployment will be difficult, if not impossible, causing enormous personal hardship.

This past November, I brought members of the House Subcommittee on Commerce, Consumer and Monetary Affairs, of which I am a member, to my district to hear the views of textile workers and executives on the effect of imports. I wish the members of this Subcommittee had been present to hear their testimony.

If you had attended this hearing, you would have heard a statement by Rosa Harrison, from Great Falls, South Carolina. Ms. Harrison, who described herself as a "wife and mother of two boys and a former employee of J.P. Stevens," testified that: "My father has been working for 36 years, my mother has been working 16 years, my husband worked 16 years, I have worked 7 years, and my brother-in-law has worked 7 years, for J.P. Stevens. . . . All of them except my father [have been laid off]. Before all of this happened we had just bought a new truck. We had just moved into a new home. And if this doesn't cause stress, tell me what does. There is just so much anyone can take."

You would also have heard the testimony of Carrie Gillen, from Mount Holly, North Carolina. Ms. Gillen testified that: "I have worked in textiles all of my life. . . . I love to work. Jobs are now curtailing. . . . We work awhile and we are off awhile.

"Our president and our company have done everything possible to . . . put in new machinery to meet the competition from overseas. We make the best quality we can make with top quality machinery and we do a good job but we cannot meet the competition that is coming in.

"If we lose our textile jobs, our stores are going to suffer, our banks are going to suffer, the automobile companies are going to suffer worse than they have, and the real estate people, they are not going to be able to sell their real estate. . . . We are going to go down, down, down. . . . The fact is, it is kiling us. And slowly we die. . . . We need to get something done about imports."

Finally, you would have heard Lawrence Rawlings, from Jefferson, South Carolina. Mr. Rawlings testified: "I am 47 years old . . . I live in Jefferson and I have lived there all of my life. . . . I have a good many friends and a good many of my family in textiles. I have been there about 29 years . . . My wife has been there 25 years. I have a brother that has been there 30 years. My wife has been there 29 years. Two brothers-in-law have been there 45 years. That is a good bit of our time. Our young days are about over with.

"We had our first layoff this past year. It hurts to . . . watch them leave with tears in their eyes. What are you going to do? Your job might be tomorrow. . . . There is nothing around but textiles . . . Our job is our life.

I cannot promise [my son] tomorrow. I say, "Son, it is me and you and the Lord." If you were in my shoes for one week, there would be tears on your shirt tomorrow. . . . As you go each day, I would like for you to remember . . . all of these friends and neighbors here. I know your job is hard. But somebody has got to help us.

When you hear personal accounts like these, the debate in Washington over "free" vs. "fair" trade becomes less abstract. I invite anyone to visit my district and explain to these good and hard-working Americans that the "market will optimize the outcome" for them.

I support H.R. 1562 for a second reason as well.

I am convinced that the current system of bilateral, product-by-product quotas is incapable of managing the current textile and apparel import flood. Foreign manufacturers have become highly adept at shifting their production lines to make goods for which there is no quota limit or for which the quota level in a particular year has not been filled. Current procedures for adding new categories of controlled products under these agreements work far too slowly to prevent U.S. market disruption. Furthermore, there is no rational way to determine the appropriate level of import growth in a bilateral agreement without an overall plan for imports from all foreign nations. Only a new system of comprehensive country quotas, as provided in H.R. 1562, can provide the reasonable and manageable import limits we need.

H.R. 1562 is not strictly protectionist. It applies no controls whatsoever to imports from our major trading partners in Western Europe and Canada, which have wage scales similar to our own. It also allows significant import growth from developing countries that need exports to survive. The bill applies strict controls only to exports from major textile producing nations, such as Taiwan and South Korea, which have advanced economies and low wage scales. Textile and apparel imports from these countries are entering the U.S. market at a rate that violates the system of managed textile trade approved by all major trading nations.

Finally, I support H.R. 1562 because I find no merit in the Reagan Administration's argument that H.R. 1562 would violate U.S. trading obligations under the General Agreement on Tariffs and Trade (GATT) and the MultiFiber Arrangement (MFA).

On June 19, five Cabinet Secretaries signed a letter to many Members of Congress arguing that H.R. 1562 is "inconsistent" with the MFA and would "result in the abrogation of the 34 bilateral textile and apparel agreements we have negotiated with our trading partners." These assertions are unsubstantiated and untrue.

Existing international agreements pose no obstacle to enactment of H.R. 1562. The GATT expressly allows imposition of trade limitations under the circumstances now prevailing in the U.S. textile and apparel industry. Article 12 of the GATT authorizes any member nation to limit imports in order to "safeguard . . . [its] external financial position and its balance of payments." If current trends continue, the United States in 1985 will incur the largest trade imbalance in history: an astounding $140 billion. Nearly one-sixth of this imbalance will be caused by an excess of textile and apparel imports. GATT article 12, therefore, authorizes the United

States to limit textile and apparel imports until the trade imbalance in these commodities is reduced.

Consistent with article 12, GATT article 19 authorizes the United States to suspend textile imports to the extent and for so long as needed to prevent "serious injury" to domestic producers resulting from "unforeseen [import] developments." The U.S. textile and apparel industry has clearly suffered serious injury because of imports entering the United States at levels far above the maximum limits anticipated by us or other parties to the MFA. Article 19, therefore, like article 12, authorizes the United States to limit textile imports.

The MFA provides even more explicit authority for a global quota. As renewed in 1981, the MFA foresees the import pressures now experienced by the U.S. textile and apparel industry, and it accommodates efforts to relieve these pressures through quota limitations.

First, MFA article 3 authorizes member nations to restrict textile imports if "justified under the provisions of the GATT." We have already seen that the GATT justifies these actions.

Second, the MFA was modified in 1981 to allow member nations greater flexibility in regulating textile imports. The protocol adopted by 42 MFA member nations on December 22, 1981 explicitly reaffirms that one of the "primary aims" of the MFA is to "avoid . . . disruptive effects in individual markets and on individual lines of production in . . . importing . . . countries." It acknowledges that "real difficulties may be caused in importing countries by sharp and substantial increases in imports. . . ."

Finally, the protocol affirms the MFA's definition of "market disruption" as "serious damage" or a threat of serious damage to domestic producers caused by a "sharp substantial increase or imminent increase of imports." The protocol reaffirms the MFA's procedure for imposing unilateral restraints on imports causing market disruption, and it emphasizes that member nations may agree to set low import growth rates when a domestic market is seriously disrupted. It applauds the major textile exporters' "good will" and constructive response to strict quota barriers set under the MFA by European nations.

European nations have taken advantage of these liberal provisions to impose import restrictions far more stringent than our own. Why should the Administration apply a stricter definition of the MFA to the United States than it applies to our trade competitors? If the MFA allows Europe to manage its imports, it also allows the United States to adopt a textile global quota.

Furthermore, as the Administration knows, the MFA expires on July 3, 1986. Negotiations to modify and renew the MFA will soon get underway. These negotiations will provide a valuable opportunity for the United States to request additional flexibility in limiting imports to prevent market disruption.

Most of our 34 bilateral textile trade agreements will also remain in effect only for several years, and several of these agreements will soon expire. For example, the U.S. textile trade agreement with Japan will expire this year, and the controversial agreement reached in 1983 with China will expire in 1987.

The Reagan Administration, therefore, cannot blame international trade agreements for its refusal to limit textile and apparel imports. When examined, these agreements do not prevent—in fact, they explicitly approve—reasonable protection under present circumstances. Even if these agreements did not allow such action, the Administration could always seek to renegotiate them. And finally, of course, the most relevant of these agreements will soon expire anyway.

If the Administration were willing to use existing authority, H.R. 1532 would be unnecessary. But the Administration has made clear that it will not take significant action. If a system of managed trade in textiles and apparel is to survive, Congress must take the initiative, and H.R. 1562 sets out a responsible course of action. Two-thirds of the House has co-sponsored the bill. We urge you to report it forthwith.

STATEMENT OF TSU-WANG HU AND MYRON SOLTER, ON BEHALF OF THE TAIWAN TEXTILE FEDERATION

This statement opposes the enactment of H.R. 1562 and is submitted on behalf of the Taiwan Textile Federation, 22 Ai Kuo East Road, Taipei, Taiwan. The statement was prepared by Tsu-Wang Hu, who is duly registered under the Foreign Agent Registration Act, Registration No. 3083 (United Friends, Inc.), and by Myron Solter, Special Legal Counsel, Foreign Agent Registration No. 1970. The Taiwan Textile Federation (hereinafter referred to as "TTF") enbraces within its membership all the trade associations in Taiwan engaged in the manufacture of textile and apparel products. All imports of textiles and apparel into the United States from Taiwan are produced by members of the organizations constituting the TTF.

The TTF wishes to thank the Trade Subcommittee of the Committee on Ways and Means for this opportunity to present its views and hopes that the members will consider carefully the facts described below.

I. SUMMARY

Twenty-eight years ago, with the voluntary restraint agreement on cotton textiles with Japan, the United States embarked on a course of action by which it has come, progressively, to protect its textile and apparel industries from import competition to an extent never enjoyed by any other industry in the modern history of the United States. The culmination of that policy is the present multilateral Multifiber Agreement (MFA) and 34 bilateral agreements, under which more than 80 percent of U.S. textile imports are severely restricted.

Despite the unprecedented and unequalled import protection it enjoys, the U.S. industry now asserts that the present quota system does not afford enough protection and asks, in the form of H.R. 1562, the legislative quotas and other changes that would be far more restrictive.

We suggest that the enactment of H.R. 1562 would do very substantial damage to the interests of the United States.

This bill would cause a rollback of textile and apparel exports from Taiwan to the U.S. of some 38 percent with a loss of export earnings of some one billion dollars. Such a rollback would require a cutback of textile production in Taiwan of around ten percent and the loss of some 45,000 jobs.

On a world scale, the rollback of U.S. textile imports would probably be about 40 percent representing a loss of exports by the supplying countries on the order of seven billion dollars, which ultimately would mean a loss of many billions of dollars in annual U.S. exports, primarily in agricultural and high-technology products.

Faced with such a loss, the textile exporting countries would have no choice but to look to their remedies under international law. The passage and signing into law of H.R. 1562 would unilaterally abrogate the MFA and all of the bilateral agreements. It would also violate Articles XI and XIII of the General Agreements on Tariffs and Trade (GATT). There would be ample legal basis for massive demands for compensation and/or trade retaliation.

The situation of the domestic textile industry does not justify the extreme protection contemplated by H.R. 1562. The industry is already sheltered by import duties on textile products averaging 22.3 percent. Import penetration by imported textiles and apparel as a percent of total consumption was only 23 percent in 1983, and it seems doubtful that penetration could have exceeded 38 percent in 1984. The industry's claim that imports cost American workers one million job opportunities is manifestly inflated.

The principal cause of the surge in imports over the past three years has been the strength of the U.S. dollar against other currencies. The expedient of imposing more onerous textile quotas would not aid in solving the problem of the over-valued dollar and would in fact be counter-productive.

The present MFA system is already quite restrictive and the successful efforts of the executive branch over the past three years to control the import surge have made it even more restrictive. More than 300 new quotas were instituted. New guidelines for market-disruption determinations were promulgated. More restrictive country-of-origin regulations were issued. Customs fraud task forces were instituted. More than 1,500 new statistical breakouts for apparel were introduced. Finally, the recent downturn in textile imports establish the success of the existing system in controlling the import surge.

Moreover, the rigidities inherent in the H.R. 1562 formula and in the U.S. import licensing provision would produce very undesirable consequences.

Finally, in keeping with the letter and the spirit of the United States' international obligations, the objective of U.S. actions must be expansion of trade in textiles, not curtailment.

II. THE ROLLBACK CONTEMPLATED BY H.R. 1562 WOULD IMPACT VERY SEVERELY ON TAIWAN

The rollback formula contained in H.R. 1562 would cut back the level of imports from Taiwan by 38 percent, would cause the loss of about one billion dollars in export earnings, and would cause the loss of about 45,000 jobs in the Taiwan textile industry.

Under the H.R. 1562 formula, actual imports during 1980 would be compounded for four years representing 1981 through 1984 at the lower of the six percent annual growth rate provided by the Multifiber Arrangement (MFA) or the actual growth rates provided by bilateral agreements. Under the bilateral between Taiwan and the United States, the specific limits incorporate an average annual growth rate of 0.75 percent for cotton, wool, and manmade fiber articles combined. U.S. imports of cotton, wool, and manmade fiber articles from Taiwan in 1980 totaled 756.711 million square yard equivalents (SYE) (not including manmade fiber flat goods under category 670, which data are not available), and "E" group plus non-MFA articles were 181.584 million SYE. Aggregating these totals and compounding over four years at 0.75 and six percent, respectively, produces a total of 1,008.919 million SYE, which, multiplied by 1.01 pursuant to the H.R. 1562 formula, establishes a total limit for all textile and apparel products from Taiwan of 1,019.008 million SYE applicable in 1985.

Table No. 1 sets out the actual totals of all textile products from both all sources and from Taiwan.

TABLE 1.—UNITED STATES IMPORTS OF ALL TEXTILES AND APPAREL FROM ALL SOURCES AND FROM TAIWAN, 1982–84

[Millions of SYE]

	1982	1983	1984
World	6,104.365	7,726.004	10,159.778
Taiwan	1,076.704	1,420.714	1,615.540

Source: "Major Shippers Report," Office of Textiles and Apparel, International Trade Administration, U.S. Department of Commerce.

Comparison of the H.R. 1562 formula quota with actual imports from Taiwan in 1984 shows that the implementation of this legislation would rollback Taiwan's aggregate level by some 596.532 million SYE—38 percent!

The economic impact on Taiwan of such a loss would be most serious. Taiwan's textile and apparel exports to the United States in 1984 were valued at 2.520 billion U.S. dollars. Taiwan's total textile and apparel production reached a value of about 10.5 billion dollars. A 38-percent cutback would thus represent a loss of some 932 million dollars in export earnings, or nearly three percent of Taiwan's total export earnings for that year and nearly 10 percent of Taiwan's total textile production value. (Data supplied by TTF)

Job loss would also be quite serious. Some 462,104 workers were employed in the textile and apparel sectors in 1984. The resulting cutback of some 10 percent of overall textile and apparel production would thus eliminate about 45,000 jobs in Taiwan's textile industry. (Data from TTF)

The magnitude of these adverse economic effects on Taiwan can only be described as major and the social implications as most serious.

III. THE DEVASTATING IMPACT ON TAIWAN WOULD BE REPLICATED IN THE OTHER MAJOR TEXTILE SUPPLYING COUNTRIES

Taiwan is the single most important supplier of textile and apparel products to the United States, accounting for nearly 16 percent of total imports in 1984, and is followed closely by Korea, Hong Kong, People's Republic of China, Japan, Italy, Pakistan, Canada, West Germany, Mexico, Indonesia, India, the Philippines, Thailand, Brazil, Singapore, United Kingdom, Sri Lanka, France, Malaysia, Spain, and 26 other countries. Since the bulk of imports enters under the terms of bilateral agreements the most important of which have growth rates similar to those applicable to Taiwan, the impact on Taiwan can readily be extrapolated to the other textile exporting countries—with the cutback worldwide probably being on the order of 40 percent.

We estimate the value of total U.S. textile and apparel imports during 1984 at about 18 billion dollars. A 40 percent rollback would thus eliminate more than seven billion dollars in dollar exchange earnings by these countries. Even in the complex real world of multilateral trade and payments, that is seven billion dollars in annual U.S. exports that ultimately and inevitably will not occur. Many of the textile exporting nations are also significant importers of grain and other agricultural products supplied by the United States. Many are purchasers of high-technology U.S. exports. If forced to make cutbacks in imports from the U.S., it seems probable that the cutbacks will be made primarily in the agricultural and high-tech product areas.

IV. H.R. 1562 WOULD DO GREAT VIOLENCE TO INTERNATIONAL OBLIGATIONS OF THE UNITED STATES AND THE AFFECTED COUNTRIES WOULD UNDOUBTEDLY ENFORCE THEIR REMEDIES UNDER INTERNATIONAL LAW

In view of the large amount of economic damage that implementation of H.R. 1562 would cause to the textile exporting nations, it is certain that virtually all of these countries would be compelled to look to their remedies under international law and would demand compensation, or retaliate, pursuant to those remedies. It is vital, therefore, to assess accurately the potential harm to United States trade and other interests that would result from this legislation.

The United States is presently party to 34 bilateral agreements restricting textile imports, some pursuant to the MFA, some pursuant to Section 204 of the Agricultural Act of 1956. All or most of these (depending on termination dates as of the effective date of the legislation) would be abrogated if this bill should become law. The bilateral agreement between Taiwan and the United States does not terminate until December 31, 1987, and would clearly be abrogated.

The MFA would be violated so rudely as to be deemed to be abrogated. At the heart of the MFA is Article 3, Paragraph 1: "Unless they are justified under the provisions of the GATT . . . no new restrictions on trade in textile products shall be introduced by participating countries . . . ."

None of the justifications under GATT exists—H.R. 1562 would constitute a prohibited new restriction.

Moreover, Article 12, Paragraph 1, of the MFA limits restrictions under its authority to cotton, wool, and manmade fiber products. Section 4(1) of H.R. 1562 would extend legislative quotas to products of other natural fibers, which contravenes both the cited provision of the MFA and Article XI, Paragraph 1, of the GATT, as well, which latter reads in pertinent part: "No prohibitions or restrictions other than duties, taxes or other charges, whether made effective through quotas, import or export licences of other measures, shall be instituted or maintained by any contracting party on the importation of any product of the territory of any other contracting party . . . ."

If fact, since H.R. 1562 represents a sweeping renunciation by the United States of its long-standing policy of multilateral cooperation in resolving textile trade problems, commencing with the Cotton Short Term Agreement in 1961, quotas under H.R. 1562 would be in direct contravention of GATT Article XI and would not be sheltered from compensation demands and/or retaliation.

Finally, the disparate treatment accorded "major exporting countries" and "exporting countries" would be a flagrant violation of Article XIII of the GATT prohibiting discrimination in the administration of quantitative restrictions.

H.R. 1562 would therefore abrogate all the textile bilaterals, would eviscerate the MFA and be tantamount to an abrogation of that agreement, and would very seriously violate United States' obligations under the GATT, all of which would provide the legal basis for massive compensation demands and/or retaliation.

V. THE SITUATION OF THE DOMESTIC INDUSTRY DOES NOT WARRANT INCURRING SUCH MASSIVE DAMAGE TO UNITED STATES INTERESTS

Before inviting such unpleasant consequences, it would be wise to examine carefully the economic situation of the United States textile industry in the light of the very special protection it has enjoyed for the past 24 years and weigh whether the harsh restrictions of H.R. 1562 would in truth be justified.

First, it must always be kept in mind that, in addition to the existing quotas, the textile and apparel industries enjoy the protection of an average import duty of 22.3 percent. In contrast, all other industry is protected by an import duty averaging less than 5 percent.

The bill recites as a finding in justification for the proposed quotas that the imports' share of total apparent consumption of apparel in 1984 reached 50 percent. This figure seems excessive; the International Trade Commission estimated market penetration of total textile imports (apparel plus textile mill products by quantity) for 1984 at 23 percent (The Multifiber Arrangement, supra, p 8), and for 1983 apparel alone at only 33 percent (*Id.* 34); 1983 textiles penetration was only 6.4 percent (*Id.* 25). Since apparel imports in 1984 increased only 21.3 percent over 1983, it seems unlikely that penetration has actually reached 50 percent.

It is also proposed that the Congress find that the current level of imports represents the loss to United States workers of over one million job opportunities. That notion assumes that each imported textile article directly displaces an equivalent amount of domestic production. This faulty assumption ignores cross price elasticities as between the imported article and the equivalent higher-priced domestic article. With few exceptions, textile imports from Taiwan are lower priced, generally lower quality merchandise distributed through "low-end" channels and are purchased predominantly by lower income consumers. It is error to assume that consumers with limited disposable income would purchase the same quantity of higher priced domestic products if cheaper imports were excluded from the U.S. market by quotas.

It is argued by the U.S. industry, and stated as a congressional finding in H.R. 1562, that the domination of the U.S. import trade by producers in the major exporting countries limits participation by other exporting countries. Quite the contrary, the fact is that the various quota systems applied to U.S. textile imports over the past 24 years have tended to stimulate and accelerate the growth of new, uncontrolled imports from new supplier countries—the "island-hopping" or "country-hopping" phenomenon—which, in turn, has tended to push up import levels at a faster rate than might otherwise have occurred.

The single most important factor in inducing the increases in textile imports over the past three years—a recitation that is missing from H.R. 1562's findings—has been the overvalued U.S. dollar. This factor has made imports even more cheaper and the U.S. industry's exports even more expensive. That can be no doubt that had the dollar not risen to such high levels against other currencies, textile import levels would have been lower. What is therefore being proposed in H.R. 1562 is to attempt to solve by very restrictive import quotas a problem which has its roots in budgetary deficits, interest rates, and other seemingly intractable national economic problems. In the H.R. 1562 context, it is most important to keep in mind that import quotas cannot solve problems generated by deeply rooted phenomena such as the strong dollar—they can only exacerbate that problem by stimulating inflationary pressures.

VI. THE DOMESTIC TEXTILE INDUSTRY IS ADEQUATELY PROTECTED BY THE MFA SYSTEM—NEW, UNILATERAL RESTRICTIONS ARE NOT NECESSARY

Underlying H.R. 1562 is the proposition that the MFA and the bilaterals have failed adequately to protect the textile and apparel industries—together with the attendant proposition that the executive branch of the U.S. government has failed to perform what the industry perceives to be its duty to the industry. Thus, due to the inadequacy of the MFA system and the failings of the executive, direct intervention by the Congress is called for.

In our view, the overall interests of the United States do not require additional protection for the U.S. textile industry. But we recognize realistically that protecting this industry has in fact become firmly embedded in U.S. trade policy and that the industry's contention of inadequate protection has to be evaluated against that background. When so evaluated, it is very evident that the MFA and the bilaterals provide a high degree of protection and that the executive branch has been vigorous in enforcing and tightening that protection.

Table No. 2 shows the movement of controlled versus uncontrolled imports of textiles and apparel during 1982–1984.

TABLE NO. 2—UNITED STATES TEXTILE AND APPAREL IMPORTS, DISTRIBUTION BETWEEN CONTROLLED AND UNCONTROLLED IMPORTS, 1982–84

[Millions of SYE]

	1982	1983	1984
Quantity:			
Controlled	4376.473	5334.284	6247.860
Uncontrolled	1727.892	2391.723	3911.916
Percent of total:			
Controlled	71.7	69.0	61.5
Uncontrolled	28.3	31.0	38.5
Percent change:			
Controlled		21.9	17.1
Uncontrolled		38.4	63.6

Source: "Major Shippers Report," supra.

From the foregoing, it is evident that uncontrolled imports increased more rapidly than controlled imports over the last three years and accelerated during 1984. At first glance, these data seem to lend support to the industry's contention that the MFA and the executive branch are not protecting the industry. However, when specific actions of the last three years are considered, together with the fact that imports in 1985 are declining, one should be persuaded that the restraint system has effectively halted the 1982-1984 surge in uncontrolled imports.

Specifically, the executive branch has taken the following actions:

It made 277 consultation calls over the period 1981-1984, distributed as follows:

Number of calls

Year:	*Amount*
1981	18
1982	38
1983	.112
1984	109

As a consequence of these consultation calls, 276 new quotas were instituted during this period, 241 of which were specific limits. At the present time, the number of new quotas since 1981 is estimated to be in excess of 300.

Three of these new quotas applied to Taiwan, which is already under rather comprehensive restraints: luggage at 150 million SYE, handbags at 76 million SYE, and flat goods at 4.4 million SYE.

In 1983, the President issued new and tougher guidelines for market-disruption determinations, which have been a significant factor in establishing the high number of new quotas that were instituted during this period.

In May, 1984, the President promulgated Executive Order No. 12475, which directed the Customs Service to revise its country-of-origin rules. The new Customs regulations were issued promptly in August, 1984, and severely limit the ability of exporting countries to export partly finished goods to a third country with unused or no quotas thereby gaining the third country's origin designation.

The Customs Service further acted to curtail possible quota evasions by creating special task forces, under "Operation Tripwire", which resulted in 1984 in the seizure of some $30 million in fraudulently entered goods.

Further, during the period 1983-1984, over 1,500 new statistical annotations for apparel were added to the Tariff Schedules of the United States, mostly breaking items out of previous "basket" categories, to aid in making market-disruption determinations.

The Commerce Department vigorously investigated a number of countervailing-duty petitions filed by the domestic textile and apparel industries during this period, and issued affirmative preliminary or final determinations in nine instances.

Consequently, it cannot be said that the executive branch has ignored or has failed to perform its policy obligations to protect the domestic industry.

Moreover, strong evidence that the existing system has indeed coped well with the import surge is found in the most recent import data:

TABLE NO. 3.—U.S. IMPORTS OF ALL TEXTILE PRODUCTS APRIL, 1984-85, AND JANUARY-APRIL, 1984-85

[Millions of SYE]

	April			January-April		
	1984	1985	Percent change	1984	1985	Percent change
Total	846.4	767.5	−9.3	3481.9	3326.8	−4.5
Yarns	111.5	98.3	−11.8	459.1	402.2	−12.4
Fabrics	226.5	183.1	−19.1	890.0	747.3	−16.0
Apparel	367.8	348.9	−5.1	1606.8	1609.9	+0.2
Made-up and misc	140.7	137.3	−2.4	526.1	567.4	+7.9

Source: Bureau of Census.

These most recent data clearly show an accelerating downturn in imports. It means tha the U.S. government's efforts to increase restraint levels under the existing system as a means of controlling the import surge induced by the strong dollar is succeeding. It means, in final analysis, that the domestic textile industry is already well protected and that legislated quotas are quite unnecessary.

VII. THE RIGIDITY AND IMPORT LICENSING SYSTEM IMPOSED BY H.R. 1562 ARE VERY UNDESIRABLE

Textile markets, particularly those in apparel, are characterized by rapid shifts in product design, color, blend, and other characteristics. The rigidities imposed by H.R. 1562 would have the effect of making the restraints far more damaging than just the numerical limits imposed. No provision is made for swing or shift among categories. The one percent annual growth rate imposed on major exporters is both too low and is uniform for all categories. No provision is made for carryovers and carryforwards. These flexibility devices have evolved over the 24 years of U.S. textile quotas as a practical means of balancing the flexibility required by the market place with the inflexibility inherent in quotas. H.R. 1562 would disregard that economic reality.

H.R. 1562 also makes another major departure from past practice in textile quotas: it would institute an import licensing system administered by the U.S. government. This feature effectively transfers control of the overall direction of foreign countries' textile exports to the United States from the hands of the governments concerned to the United States and, in a practical sense, to the U.S. importers.

We suggest that there is no justification for such a departure from past practice. The present visa system is working sufficiently well. Taiwan was instrumental in evolving that system and was the first to initiate visa verification, which is now done daily by satelite. Transferring control from the exporting governments to, de facto, the American importers can only amplify the damage and mischief which H.R. 1562 is designed to cause.

VIII. THE UNITED STATES SHOULD ADHERE TO THE LETTER AND SPIRIT OF ITS SOLEMNLY UNDERTAKEN INTERNATIONAL OBLIGATIONS

Quantitative restraints on U.S. importations of textiles and extraordinary protection for the U.S. industry began in 1957—28 years ago—with the cotton voluntary restraint agreement with Japan. The quantum of protection grew through the short-term and long-term cotton arrangements of 1961 and 1962, evolving ultimately into the first MFA effective in 1974. It should be recalled that the United States solemnly promised that the objective of all these restrictions was, in the terms of Article 1 of the MFA, "to achieve the expansion of trade, the reduction of barriers to such trade and the progressive liberalization of world trade in textile products, while at the same time ensuring the orderly and equitable development of this trade and avoidance of disruptive effects in individual markets and on individual lines of production on both importing and exporting countries."

H.R. 1562 would greatly impair the objectives of the MFA system.

Is it not appropriate to ask—when will it end? After 28 years we should be seeing increasing light at the end of this textile-restriction tunnel. Instead, it appears that we are about to be thrust into complete darkness.

For the foregoing reasons, we express the earnest hope that H.R. 1562 will not be enacted.

Respectfully submitted.

TAPE-CRAFT CORP.,
Anniston, AL April 9, 1985.

TRADE SUBCOMMITTEE,
WAYS AND MEANS COMMITTEE,
U.S. House of Representatives, Washington, DC.

DEAR SIRS: For the past several years, textile and apparel imports have increased with little or no restrictions or regulations to govern these foreign products.

The influx of these imports has driven prices down to the point that many textile companies have ceased operations and displaced hundreds of American workers.

Tape-Craft Corporation is one of the largest, most diversified narrow fabric manufacturers in America serving such markets as; fashion belt, luggage & tote, carpet, apparel, sporting goods, canvas, juvenile furniture, and the military.

This company has provided jobs for 350 Alabama families since its humble beginning in 1946. Trade restrictions must be imposed to insure our continued success in a very competitive market.

Rolls of tapes and webbing are now beginning to be imported from Brazil, Korea, and Taiwan at less cost than we can buy the raw materials to manufacture these tapes and webbings. We have seen our customers' business volumes decrease due to the influx of imported finished textile products. Some of our former customers have ceased manufacturing in the U.S.A. and are now importing the products they sell. Other customers simply went out of business. These imports have caused our customers to reduce orders for our goods which has resulted in a reduction of our workforce by 100 employees since January 1984.

As one of the largest narrow fabric manufacturers, we urge our government to restrict imports as outlined in the Textile and Apparel Trade Enforcement Act of 1985, and keep American textile workers employed.

We must balance the scales of free trade to allow our textile companies a fair chance in the open market.

Sincerely,

JIM MCCLELLAN, *President.*

STATEMENT OF DAVID J. STEINBERG, PRESIDENT, U.S. COUNCIL FOR AN OPEN WORLD ECONOMY, INC.

Like all other hearings dealing with the U.S. textile and apparel industries, the Subcommittee's current hearings on this subject appear to neglect a major dimension of the balanced, constructive assessment needed in addressing the real problems and needs of this major U.S. industrial sector in a rapidly changing and increasingly competitive world. The dimension I have in mind has been neglected throughout the history of U.S. policy on imports of textiles and apparel—a shortcoming common to the government's response to all industries seriously buffeted by foreign competition. Neglected is a coherent, industrial-adjustment strategy (in this case a textiles-and-apparel redevelopment strategy) as the framework for whatever government assistance is warranted and as the instrument for a deliberate effort to phase-out whatever trade restrictions may be deemed necessary.

Through one kind of textile import control or another, we have had a textile trade policy for nearly 30 years, but never a coherent, comprehensive textile policy in the overall and most enlightened sense. The Executive Branch has never sought such an adjustment policy, nor has Congress or any of its committees asked it to move in this direction. There is no evidence that any such strategy is in the making. Import control in some degree may be necessary to buy time for such an adjustment effort, but such trade restraint should be temporary and only a last-resort component, not the permanent fixture that import controls appear to have become. A definitive free-trade premise (expectation of the ultimate removal of trade barriers) should be factored into such a strategy, and firm, explicit commitments should be forthcoming from management and labor as well as from government on the things each sector needs to do to ensure the strategy's success. Government's involvement should include reassessment of all statutes and regulations materially affecting the industry's ability to adjust to new and rapidly changing international economic realities. Any inexcusable inequities should be corrected forthwith.

The government's involvement in such an industry-adjustment effort should be systematically reviewed by Congress to make sure that government assistance does not last longer than is necessary in the best interests of the industry and of the nation as a whole and that continued government involvement is adequately and properly attuned to achievement of a well-designed objective for the textile and apparel industries in the context of the total national interest.

Our Council appears to be the only advocate of such policy reform. Thus, to restrict or not to restrict imports—and, if restriction, then how much—is not the sum and substance of our Council's attention to the textile and apparel industries. Nor should it be the sum and substance of the government's attention to the problems of these industrial sectors. We are concerned with the real problems and needs of the people and communities that are dependent on these industries in one way or another, and how best to address these problems and needs and those of the industry itself within the framework of the needs and aspirations of the American economy as a whole. We note with regret that these dimensions of the textiles-and-apparel issue are neglected no less by other advocates of freer world trade than by those who defend restriction of textiles-and-apparel imports.

DOTHAN, AL, *March 26, 1985.*

Congressman SAM GIBBONS,
Chairman, Trade Subcommittee, Rayburn House Office Building, Washington, DC.

DEAR MR. GIBBONS: As President of the Vinyl Coated Product Weaver's Association, we are vitally concerned about the increasing volume of imports, which are flooding our markets with low priced and often inferior quality products. Our association represents virtually all of the manufacturers of vinyl coated woven textile products. Our company has offices and manufacturing facilities in Dothan, Alabama, and we currently employ approximately 450 people. Unless something is done in the near future, to limit the mass imports in our industry, we anticipate that our company may be forced to eliminate approximately 200 jobs in the very near future. As you can well imagine, the loss of these jobs will not only create extreme hardship on the individual employees, but will drastically increase the demand for state and federal aid and even further contribute to the federal trade deficit.

As a concerned corporate citizen, we would appreciate knowing what you, as chairman of the sub-committee, are doing to alleviate this problem, and we would further like to know what additional steps we might take to assist in the passage of any pending legislation which concerns limiting imports in the textile industry. As you may well know, textile imports have increased two to three times levels of only one year ago.

Because of the value of the U.S. dollar and foreign manufacturers' willingness to market quality inferior to our industry standards, many jobs will be lost. Unfortunately, consumers have little knowledge of the difference in quality as it is not visible until months after a product is purchased. Your committee's efforts are necessary to save jobs and protect consumers.

Thank you for your anticipated cooperation and assistance.

Sincerely yours,

STEVEN W. SPIRES,
Vice President, Twitchell,
President, Vinyl Coated Product Weaver's Association.

STATEMENT OF BRUCE LANIER, JR., PRESIDENT, WEHADKEE YARN MILLS, INC., WEST POINT, GA

My name is Bruce Lanier, Jr., and I am President of a small, closely held yarn spinning company that has been in business since the late 1800's. We were incorporated in the early 1900's and have been operating in the state of Alabama continuously since then. We have been profitable and through these profits have been able to modernize our plants to keep them competitive, as well as enabling them to spin quality yarns that service mainly the industrial markets in this country. We do have yarns that find their way into the apparel end of the textile industry, as well as the upholstery and drapery segments of our industry.

Before I go any further as to how our company has been affected by recent increases of textile imports, I think it prudent that I take a few minutes to briefly detail the overall textile/apparel industry in terms of integration.

The textile industry in this country is composed of two separate and distinct segments. One is the integrated manufacturers who produce and consume yarn in their own weaving, knitting and tufting operations and the other is the non-integrated manufacturer who has no yarn production and must rely on outside sources of supply.

People in this second category would be knitters and specialty weavers as well as carpet and rug mills.

The integrated manufacturer, while spinning most of the yarns he needs for his internal use, does occasionally buy yarns from the yarn spinning market. These yarns are usually specialty yarns that have characteristics that can't be reproduced within the integrated manufacturers operation, and in a lot of cases these yarns are characterized by small poundages that the integrated manufacturer finds inefficient for him to handle. By contrast, the other segment of the industry is style oriented, requiring a greater variety of yarns that could not be efficiently produced internally. It is this segment that the sales yarn industry supports.

While these two segments do live in harmony most of the time, occasionally the vertical or fully integrated producers find themselves with excess spun yarn capacity and do from time to time enter into the yarn spinners markets with this extra capacity. This causes some market disruption, but is a part of our business and the consumer is the ultimate winner since it creates competition and keeps prices and profits from swinging too far in either direction. But more importantly, this is a very delicate balance that we in the yarn spinning segment of the overall textile/apparel industry have in our relationship with other segments, and any large swing of production into our markets could created disruptive forces that may destroy us all. It is to this that I would like to address the remainder of my remarks on how imports have affected Wehadkee and its business environment.

For the last one hundred years poundage for sale in our industry has generally kept up with demand from our customers, such as knitters, tufters, and weavers.

But now, with the recent influx of apparel being imported from overseas, we find that not only are the fully integrated operations being hurt to the point they cannot run their looms, but our competitors in the yarn spinning end of it are also being hurt because their customers no longer need yarn. The only avenue of survival they have is to find markets for their yarns. It is here that Wehadkee Yarn Mills takes the punishment because integrated mills, as well as yarn spinners, that traditionally have not been in our markets, are gearing up as efficiently as they possibly can to run the yarns and sell them in areas we have serviced.

It is absolutely essential that everyone involved with our import problem understand that an imported garment, rug or otherwise, not only displaces the knitter or weaver or tufter that could make that garment or rug, but also displaces downstream yarn spinning capacity. It also, once and for all, destroys jobs that can never be rebuilt unless there is a reversal of the import situation we are faced with today.

We at Wehadkee have done everything that a well managed company would do to insure its long term survival. Modern equipment has been installed as evidenced by the fact that we can produce more yarn today than ten years ago with only three-fifths the workforce. Pension, medical safety and health plans have kept pace so as to insure a good environment for our employees. But still, we are unable to compete in our markets with the prices that are being forced upon us because of the situation I detailed earlier of other manufacturers trying to survive and just pick up poundage wherever they can.

In summation, I can only say the textile industry of the United States is facing one of the most crucial periods during its long history. We have problems of an over-valued dollar, problems of ineffective import control system and our economic and political system seems to be at cross purposes with the very person it is designed to serve—the American worker. I think it can be understood why the textile industry is losing confidence in it's future, and new investment is hard to justify with the uncertain road it looks like we are having to tread. We in the textile industry are not interested in who gets credit for the ultimate solution of our problem, because we are now down to the point where something must be done or the industry will not survive to see the year 2000.

I hope any information I can provide will be asked for, and I stand willing to aid in anything I can do for my company to change our environment so we will once again become a viable employer with a certain future in this great country of ours.

ATLANTA, GA, *April 6, 1985.*

SUBCOMMITTEE ON TRADE,
COMMITTEE ON WAYS AND MEANS,
U.S. House of Representatives.

MR. CHAIRMAN, GENTLEMEN: My name is Val Winkelman, Jr. I am a sales representative in the Southeast for several textile mills and converters, selling fabrics primarily to the apparel manufacturing trade. Yesterday I attended your hearing at Unicoi State Park, and commend you for coming into the field to learn more about some of our problems. It was my first such hearing, having heard about it through a professor at Georgia Tech, who is an officer of the Atlanta Textile Club, of which I am currently serving as president. I spent 26 years with two large fabric manufacturers before going into business for myself 13 years ago.

In the late Fifties, when living in another state, I remember writing to my Congressman and Senators, complaining about imported Japanese colored yarn fabrics which were aimed right at the markets we were serving, and disrupting our efforts. At that time, we had lost, according to trade journals, 6 percent of our market. Today, almost 30 years later, I read we have lost 45-50 percent of our total textile market, and we are on the brink of disaster in this important basic industry. In travelling around the Southeast, calling upon customers or potential customers, there is a frenzy of concern as one after another apparel manufacturer or textile mill closes its doors due to imports. The short term beneficiary has been the major retail stores, first led by the major chains and followed by the department store chains or groups. They are motivated by pure greed, buying at almost slave labor, low prices, and selling at inordinately high mark ups, whatever the market will stand.

The National Retail Merchants Association seems to be the worst enemy of our own textile industry, promoting so-called free trade. Now they are soliciting the aid of the large wheat farm corporations, as free traders. While I am no authority on farming, I wonder if, in order to export more wheat, we are wearing out our soil without consideration for future generations. Another group of so-called free traders may be the international bankers. I would presume they don't care where their profits come from. Motivated by greed, they have been lending enormous amounts of money to unstable countries for higher than normal interest rates. I thought our banking industry was supposed to be regulated, as a protection for its depositors and us tax payers.

Most countries that I have read or heard about do not have free trade. They protect their own industries, primarily with tariffs so high that we can't export to them, or with other restrictions.

A friend of mine has had some business dealings with the Japanese lately. When he was over there, he had a couple of drinks with one Japanese, whose tongue got a little loose. He said Americans are dumb, dumb to allow everybody to take their own markets, and dumb to think other countries are going to allow them (Americans) complete freedom to their markets. We are either very naive or are being manipulated. I have heard many times that our own State Department doesn't have enough character and grit to represent our own needs and concerns. It's easier for them to try to give the countries, to which they are assigned, whatever they want, receiving in return favor, affection, and whatever.

Gentlemen, it's up to you to take action. With regard to a basic industry such as textiles, I would suggest that we allow no more than 20-25 percent of total square yardage equivalent imports. I really think 20 percent would be the best figure. We need some imports because some people do some things better than we and because it allows an exchange of ideas and advancements. However, now that we have lost 45-50 percent of our industry, there should be an orderly transition back to former levels of imports. Garment imports should be cut back first, closely followed by fabric imports, because so many people employed in garment manufacturing plants have been adversely affected. Even the 807 program is exporting jobs of our people to the Caribbean countries. We need a textile industry. It provides many jobs for people who might not be as gifted as others in many ways, as just one reason. It's far better to make them tax payers instead of welfare recipients.

In my own situation, since the middle of 1980, 5 or 6 of my lines have gone out of business and at least 20 more of my customers have bitten the dust. I keep thinking this can't continue to go on, because it makes no sense, but it does. During the last 5 years, trying to remain in business, it has cost me a considerable portion of my savings; that's money saved after taxes and expenses over my lifetime, and that loss will greatly affect my ability to function if I live to retirement.

If any additional customs agents are required in administering this control, then the cost should be added to duties charged.

I would announce immediately that imports will be cut back to 1979 levels the first year. Then the next year we could again cut back a few percentage points, etc.

Gentlemen, thanks for listening. Good luck in securing quick action!

Very truly yours,

VAL WINKELMAN, Jr.

[Members of West Point Pepperrell unemployed submitted a video cassette entitled: "Imports: WPP Employees Speak Out," which has been retained in the committee files.]

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